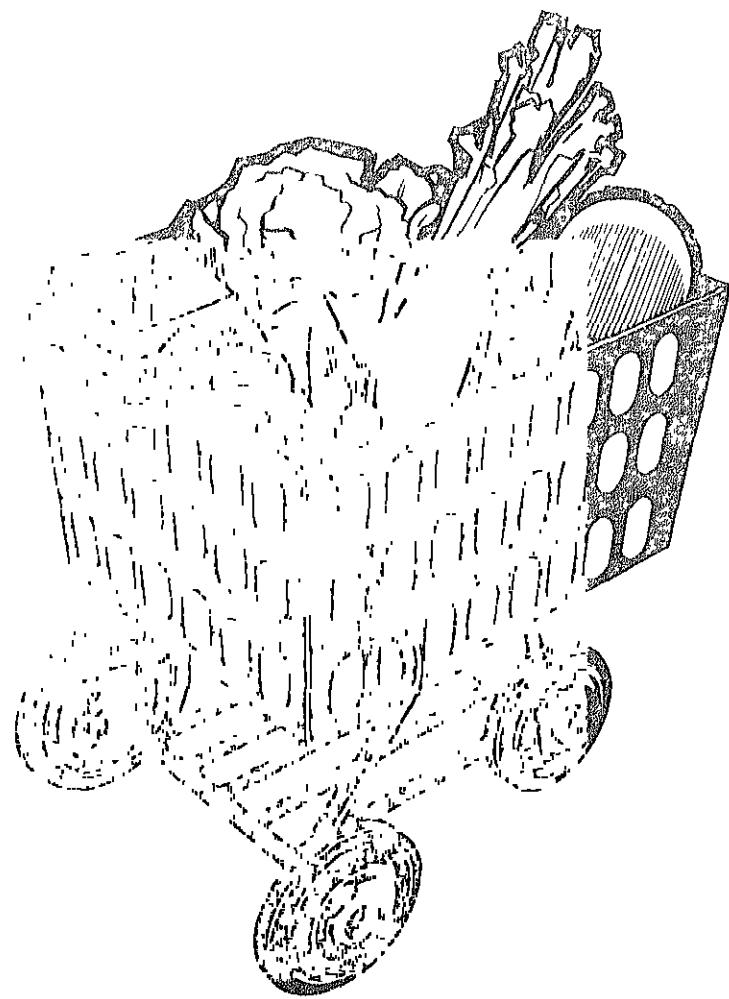


EFFECTIVE FRUIT and VEGETABLE MARKETING

SEVEN PROFILES... GUIDELINES



PREFACE

This report furnishes information on the organizational structure and operating methods of selected marketing cooperatives and proposes guidelines for producers and associations interested in organizing an effective marketing program.

An effective fruit and vegetable marketing program is defined in this study as an organizational procedure that enables participating firms or members to enlarge and strengthen their market position.

Seven fruit and vegetable firms that expanded their production-marketing ability were selected for study. Four organizations were formed by their member associations as joint marketing agencies. Three other organizations used the acquisition method to improve production and sales.

Data were obtained through personal interviews with directors and managers of the seven associations. Additional information was obtained from annual reports and other records of the organizations.

Each association was studied with respect to organizational and financial structure, facilities, operating methods, sales arrangements and outlets, charges, and services performed.

As the experience of these organizations can attest, no sure, fast, or easy way of increasing coordination among growers, processors, and retailers has been found. In addition, no set procedure can be recommended that applies to developing the most effective marketing activity, because conditions vary from area to area and in individual circumstances. Certain guidelines, however, can be established and modifications made in the criteria under the prevailing conditions.

This publication supersedes U. S. Department of Agriculture Marketing Research Report No. 826, "Coordinated Marketing Programs of Selected Fruit and Vegetable Cooperatives," issued September 1968.

HIGHLIGHTS

Coordinated production and marketing in the fruit and vegetable industry assures cooperative farmer members services they would not otherwise get.

Such coordination assures greater stability to the industry as a whole and fairer return to the grower owners from fresh and processed sales. Other benefits are: Lower sales and promotion costs; adequate financing by pooling resources; higher sales value of total production; improved standardization of products and packs; and reduced transportation and distribution costs.

Thus far, a limited number of firms have entered into co-ordinated production and marketing arrangements, using two different routes. Seven are included in this study. California Canners and Growers, San Francisco, Michigan Celery Promotion Cooperative, Zeeland, and the Pro-Fac Cooperative and Curtice-Burns Complex, Rochester, N.Y., expanded operations by acquisition. Formed by their member organizations as joint marketing agencies were: American Farms Cooperative, Waupun, Wis.; Citrus Central, Orlando, Fla.; Mutual Vegetable Sales, Salinas, Calif.; and Texas Citrus Exchange, Edinburg. Each member organization retains its individual identity and operates independently except for marketing.

Regardless of route, grower organizations interested in co-ordinated marketing should initially consider a sales manager with final authority; uniform quality-control from farm to buyer of product; new product research, combined marketing of association and buyer labels; specialized packing plants; forward location and copacking arrangements; cooperatively owned or leased trucks; coordinated purchasing of production and marketing supplies; centralized accounting to supply members with periodic statements; and regular membership meetings announced in a periodic newsletter.

EFFECTIVE FRUIT and VEGETABLE MARKETING

SEVEN PROFILES... GUIDELINES

*Richard S. Berberich
Agriculture Economist*

Over the years, economic concentration in the processing and retailing of fruits and vegetables has increased. Twenty firms, for example, account for more than half the volume of the canning industry. The same number account for more than two-thirds of the total output of frozen products. About 15 percent of all retail food stores account for more than 70 percent of all food sales.

The necessity for sizable group action by fruit and vegetable growers is evident. The demand by today's large buyers for an assured volume and variety of quality products, as well as increased marketing services, presents serious problems to some small fruit and vegetable suppliers.

Fruit and vegetable organizations can improve their operating efficiency and marketing effectiveness basically in two ways. They can merge with or acquire other firms and operate under a single management system, or they can coordinate their marketing operations.

Both alternatives result in a marketing program that can better serve needs of large-scale buyers, lessen competition among individual firms, and improve bargaining position of growers and their associations. Either marketing procedure is a plan that enables participating firms to strengthen their market position and to receive benefits they would not receive from independent operations.

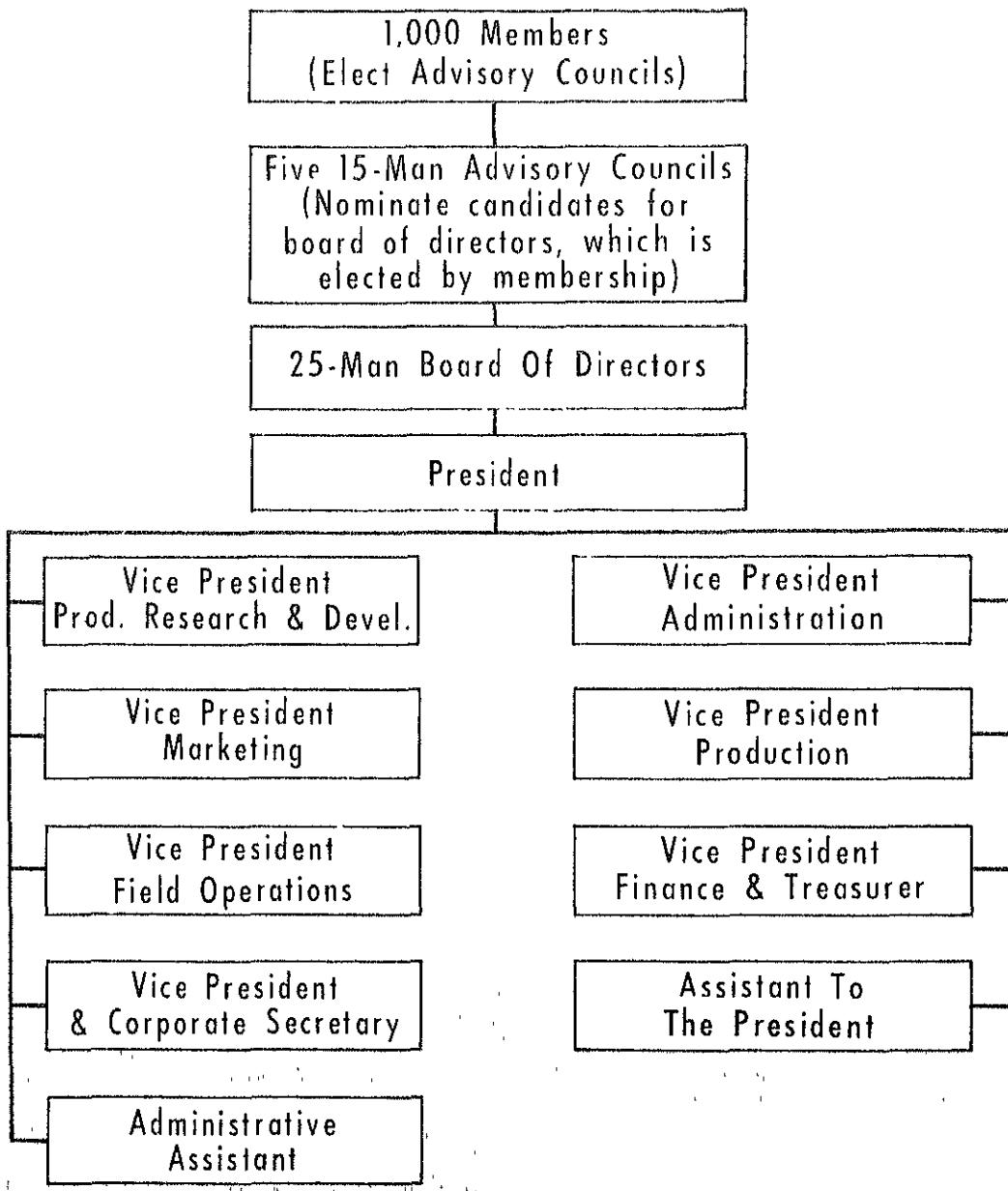
MARKETING BY VERTICAL OWNERSHIP AND CONTROL

The fruit and vegetable processing industry includes a large number of small- to medium-sized plants near their sources of supply. Competition among these plants in procuring raw supplies and selling finished products is often keen.

Rather than build new canneries or freezing plants and develop new markets, some cooperatives have acquired well-established processing companies, combined them into a single-management system and operated them on a farmer owned and controlled basis. This was the approach taken by California Canneries and Growers, San Francisco, and Pro-Fac and Curtice-Burns, Rochester, N.Y. The coordinating procedure and retention of qualified management and operating personnel of the acquired companies are distinguishing characteristics of these cooperative processors.

Marketing effectiveness in the fresh fruit and vegetable industry can be improved also through acquisition. One example is Michigan Celery Promotion Cooperative at Zeeland, which developed a more unified marketing system by purchasing another cooperative's assets. Through intelligent acquisition, this cooperative is now in the strong position of handling about 75 percent of Michigan's celery crop.

FIG. 1--CALIFORNIA CANNERS AND GROWERS



California Canners and Growers

After several years of study and research by grower groups interested in better ways to process and market their crops, California Canners and Growers (CCG), San Francisco, was organized and incorporated as a cooperative in 1957. California Canning Peach Association, San Francisco, was the principal sponsor. Considerable assistance was provided also by California Canning Pear Association, San Francisco, Tomato Growers Association, Stockton, and California Freestone Peach Association, Modesto.

Initial membership of 473 growers invested about \$1 million in the organization. The money was used as a downpayment for acquiring two processing organizations in 1958—Richmond-Chase Company at San Jose and Filice and Perrelli Canning Company at Richmond. CCG purchased Thornton Canning Company in 1959, San Jose Canning Company in 1960, and Schuckl and Company, Inc., at Sunnyvale in 1963. Wyandotte Olive Growers Association at Oreville was merged into the organization in 1966.

Each of these six companies had successful, well-established canning operations strategically located. Their acquisition by CCG resulted in a diversified operation with real potential for maximum processing efficiency.

CCG launched a new cooperative canning plant near Lomira, Wis., in June 1969 as a first venture outside its home State. Combined production and warehouse space together with the air-conditioned office complex equals the area of five football fields. Packs include corn, peas, and green beans.

In 1970, CCG constructed a combination warehouse and distribution center at Lomira. The center is designed to permit efficient commingling of fruits canned in California with vegetables processed in Wisconsin. It gives midwestern customers faster service on mixed orders. It has been a notable success and is important to private-label sales.

The association now has about 1,000 grower members and has continued to increase its total sales of canned fruit and vegetable products. CCG's sales volume of more than \$100 million makes it the largest grower-owned canning business in the world.

Organizational Structure

California Canners and Growers began its operation in 1958 with the purchased canning companies functioning as subsidiaries, each retaining its own management and board of directors and each reporting to the association board of directors. This arrangement provided growers with qualified management and an efficient operation for the next 5 years.

On June 1, 1964, all divisions and subsidiaries were merged into a single operating company, and a manage-

ment group was selected from the previous operating staffs. The merger included consolidating CCG's five former independent food processing firms, their nine modern canning plants, and all administrative, marketing, and accounting personnel.

San Francisco was chosen as the new headquarters because of its accessibility to the growing areas, canneries, food buyers, sales outlets, and financial institutions. Figure 1 shows the current organization chart, it was provided by the association.

Eligibility for Membership.—Any producer whose agricultural products can be processed, marketed, or handled by the association is eligible for membership.

An applicant's request for membership is reviewed in light of the association's marketing requirements and long-range raw product projection needs by commodity, variety, and crop location. Then he is screened to determine his financial stability, quality of fruits or vegetables he produces, and his production capabilities.

Growers admitted to the association must sign a membership agreement for a minimum of 3 years and agree to leave a portion of net proceeds from each year's crop production in the company as working capital.

Although waiting lists are common to all commodities, membership is periodically open when raw-product needs occur.

Voting.—Members' voting rights are basically one vote for every \$5,000 worth of business, in terms of raw-product value, with a minimum of one vote per member.

Crop Purchase and Membership Agreement.—The membership agreement specifies that the member agrees to sell and deliver to the association all products produced or furnished by him. The association, in turn, agrees to purchase and receive these products.

The member agrees to conform to the rules and regulations of the association and to accept its grading standards and established classifications.

Term of the agreement is for 15 consecutive years. A termination clause in the contract can be exercised by the member at the end of the third year, or any anniversary date thereafter. The association can exercise its option on any anniversary date by giving 1 year's advance notice.

Financing.—CCG was organized without capital stock. Initial capital of about \$1 million was obtained through growers' investment in equity certificates. Individual grower investment represented about 15 percent of the per ton value in 1957 for each commodity in a given area.

In 1962, members voted to eliminate the investment requirement for new members and now obtain necessary financing through retains from the total net returns of the association. At the end of each fiscal year, 80

percent of net returns are retained in a revolving fund. Both capital contributions and capital retains are re-
volved at the discretion of the board of directors

Management.—CCG is managed by a board of 25 directors. Twenty are grower members elected by members and five are directors at large, appointed by the board of directors. The board, by majority vote, may elect any person, whether a member of the association or not, as a director at large with the same powers, rights, abilities, and duties of all other directors. For example, one of the directors at large presently is the president

Grower members on the board of directors limit themselves to decisions of broad policy, and management determines how returns to growers can be maximized in production and marketing. The board of directors elects the president, vice presidents, secretary, treasurer, and other administrative officers.

Committees appointed by the board are classified as executive, budget and finance, capital structure and revolvement, grower relation-raw product research, and others as needed.

The executive committee consists of seven board members, including the president; it may, on occasion, act for the board and perform other duties delegated to it by the board.

The president appoints the management committee, which consists of the president, executive vice president, vice presidents, other top executives, treasurer, comptroller, and director of industrial relations. The committee meets once a week to review operations and discuss production and marketing decisions.

Employees.—The association employs about 7,500 workers during the peak season and maintains about 1,200 full-time employees

Policies.—CCG's primary objective as a processor and marketer of food products is to provide growers a return above estimated commercial value of the raw product. Commercial market value is the price most frequently paid by the industry.

The association strives to increase the yearly return to grower owners. It also attempts to minimize the impact of fluctuations in the price of individual commodities by operating on a single-pool basis. Net returns realized from the various processed products supplement returns paid growers for their raw products.

CCG strives to coordinate the growing of quality raw products with processing and marketing requirements. Long-range policy stresses quality and development of new products.

Broad objectives of CCG's marketing program are threefold:

- Broaden the distribution base on CCG branded products.
- Enlarge the institutional and industrial sales bases.

- Continue service to a strong and viable private-label industry.

Techniques used to achieve these objectives differ by objective but are interwoven with new product development, quality, total customer service facilities, and developing a sound, well-trained, and knowledgeable sales management and broker representative group.

Operations

Through consolidation and expansion, CCG handles marketing under contract of the following crops: Apricots, cherries, Yellow Cling peaches, Elberta peaches, grapes, pears, olives, asparagus, corn, beans, peas, spinach, squash, and tomatoes.

The association determines its sales potential for each marketing season and plans its pack accordingly. Twice each year, analysts prepare projections on market requirements and potential. Production may be contracted to persons other than members if market requirements exceed available supplies.

Pooling.—All fruits and vegetables marketed by CCG are handled in one single pool. Final returns are prorated to members according to the relationship between overall returns and estimated commercial market value. The cooperative pays its members 60 percent of the estimated commercial value of the raw products at delivery time. The balance is paid in three installments in percents determined by the board of directors. When commercial, raw-product value has not been determined at harvesttime, payment is based on the average commercial price of the preceding 4 years.

Research and Development.—CCG's research and development staff is occupied with projects ranging from product innovation to environmental problems. Its laboratory pioneered the development of artificially sweetened low-calorie canned fruits and also developed the Diet Delight line, using a low-sugar medium. Institutional and industrial sales also can trace marketing progress to the laboratory's research activity.

The association provides raw-product research service for its grower members. Information developed by the company's research staff and gathered from universities and experiment stations is passed on to growers and fieldmen. This is aimed at helping produce crops above average in yield and quality.

Sales.—CCG's total sales increased from about \$53 million in the first season's operation to \$131 million in 1972-73. Figure 2 shows the 15-year trend in sales.

Markets Served.—About 594,000 tons of fruits and vegetables were packed by the association for sale throughout the United States and in foreign countries during the 1972-73 season.

More than one-half of CCG's sales are made east of the Mississippi River, including sales in New York,

Boston, Philadelphia, Washington, Baltimore, and Chicago. San Francisco and Los Angeles are also important markets.

Rail shipments account for about 70 percent of the delivered domestic volume; the remaining 30 percent is delivered by truck.

The cooperative has made good progress in recent years in developing foreign markets. About 7 percent of its processed fruits are sold in major foreign markets, including the United Kingdom and West Germany.

Selling Methods.—CCG sells directly to chains, wholesalers, and institutional buyers and through food brokers. Average returns per case from direct sales and sales made through brokers are comparable in view of the service provided.

About 62 percent of the product sales are made through food brokers, with the remaining 38 percent going direct.

The association is one of the leaders in contributing to the stability of industry pricing for canned fruits and

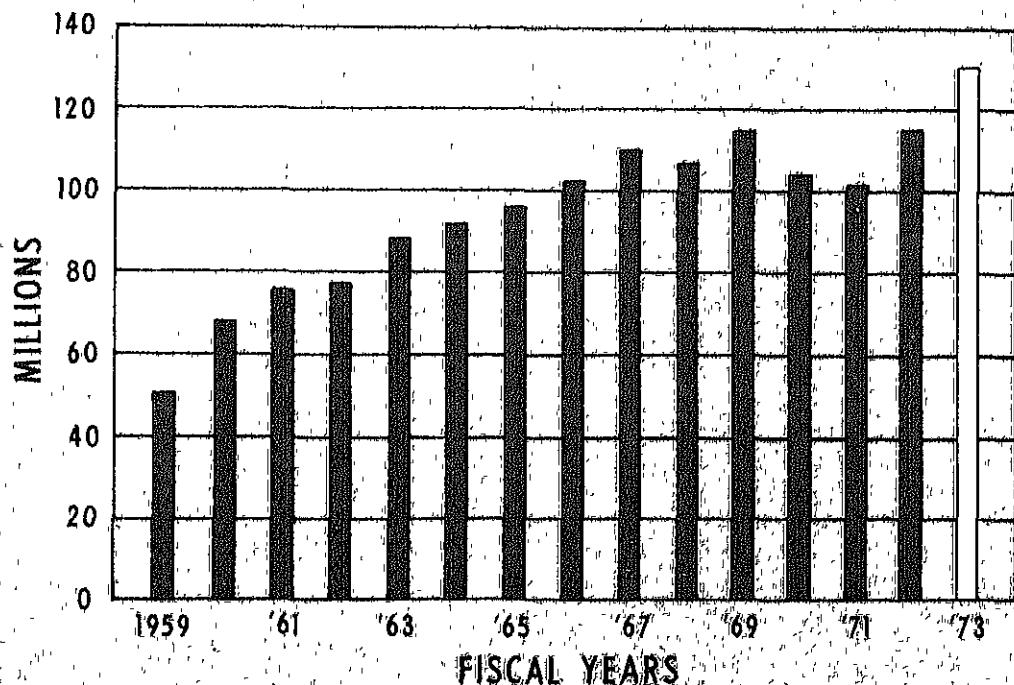
vegetables. Opening prices are based on a careful analysis of supply and demand.

Brand Policy.—CCG markets about 25 percent of its products under the well-established brand names of the companies that were acquired by the association. Private-label packing is done for the wholesale and chain grocery trade.

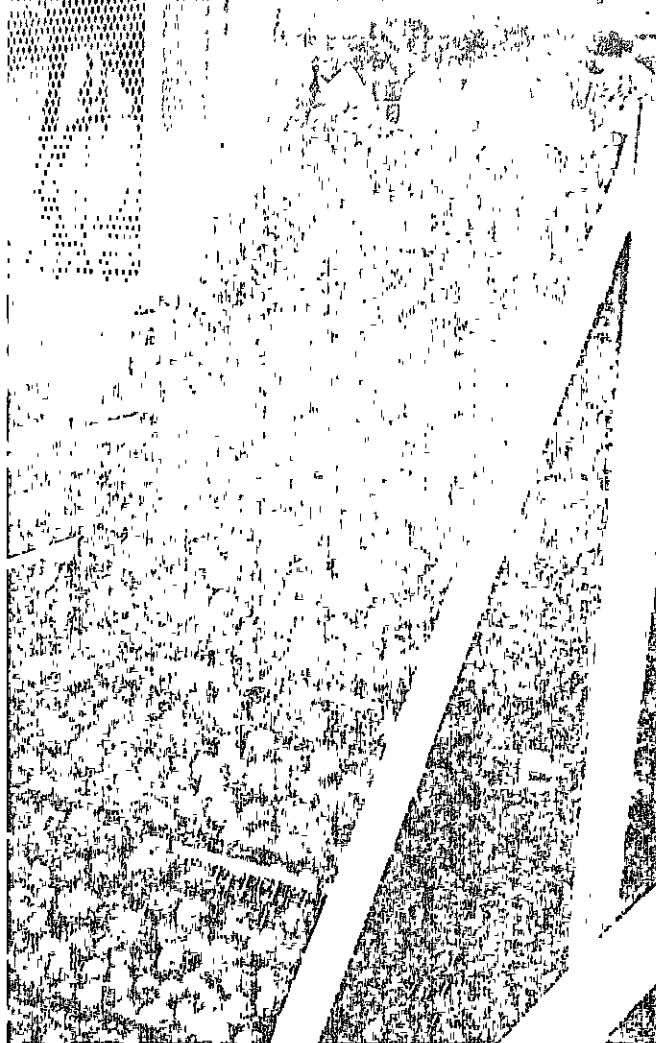
Some major brands are Diet Delight low-calorie fruits and low-sodium vegetables, Heart's Delight nectars and freestone peaches, Redpack tomato and tomato products, Aunt Penny's prepared sauces, and Wyandotte's olives. These brands, with few exceptions, are not restricted to a specific type of buyer or a given market.

Promotion.—Most of CCG's advertising budget is currently being spent on brand advertising in newspapers. However, all advertising media plus promotional arrangements with retailers are important facets of the company's promotion program. In general, the type of

FIG. 2--CALIFORNIA CANNERS AND GROWERS SALES



After workers sort mechanically harvested tomatoes in the field, they further grade them in the canning plant



promotional media used depends upon the products to be promoted and the areas covered.

CCG's objectives are to maintain a promotional program consistent with market conditions and within the limits of its general marketing strategy.

Market Information.—In addition to the usual trade sources and U.S. Department of Agriculture (USDA) reports, CCG obtains information from major market research firms.

Services Provided.—CCG provides its members with a number of valuable services. A 20-man field staff assists in scheduling of members' plantings, agricultural practices, and, for certain commodities, harvesting.

The field research department develops and distributes information to members on crop varieties, yields, product handling, and general horticultural practices.

The field operations division represents the cooperative and its members on Government and trade committees pertaining to industry grade standards.

Customers are provided the same type of services that most larger proprietary companies offer. All products

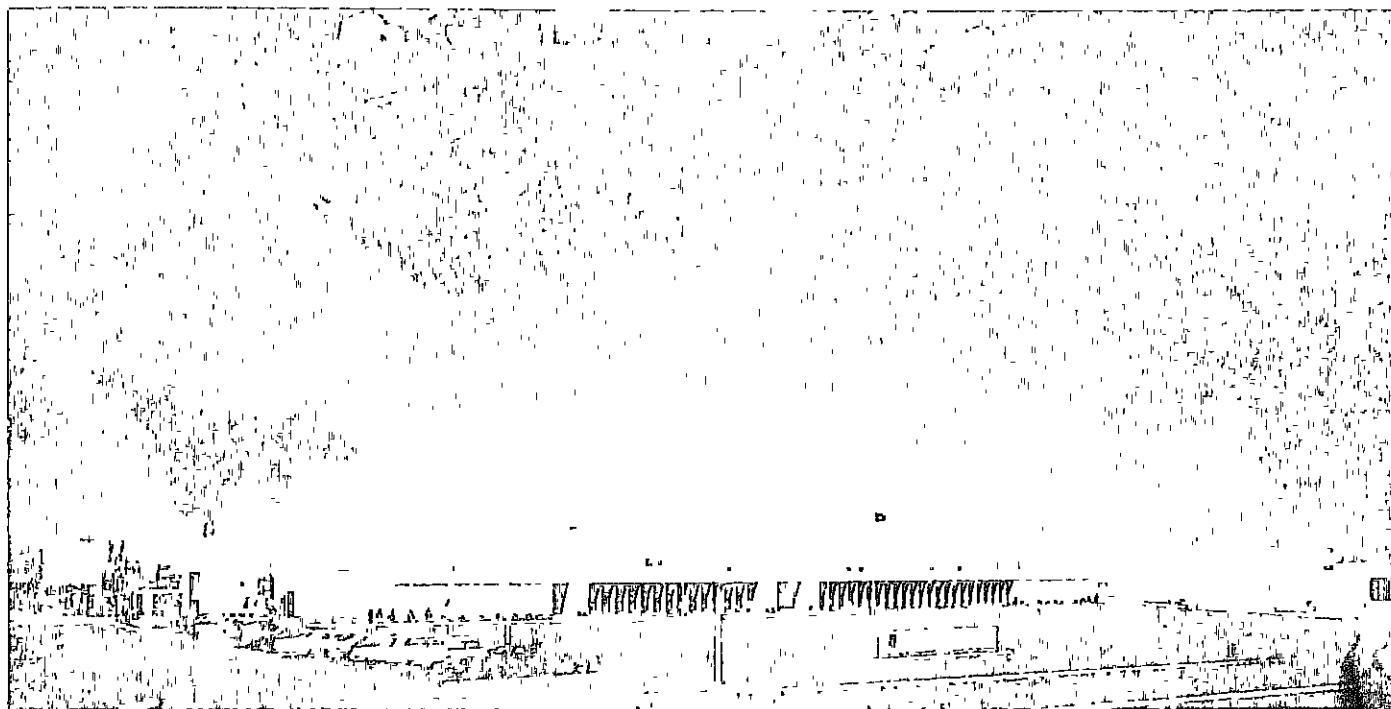
sold are guaranteed, with delivery from either the West Coast or strategically located warehouses.

Quality Control.—Recognizing the importance of quality has stimulated CCG to set up high quality-control standards. Inspection by its own permanent quality-control staff is supplemented by that of USDA inspectors and seasonal quality-control personnel.

Each plant manager is responsible for maintaining his own quality-control department under the supervision of a senior laboratory technician; he is assisted by USDA in-plant inspectors. Corporate quality control continually audits the plant's quality-control efforts to insure proper interpretation and application of the established quality-control program.

Operating Efficiency.—CCG's program stresses efficiency to reduce processing and marketing costs. An example of cost reduction through vertical integration is CCG's venture with Tri-Valley Growers Cooperative in can manufacturing and export marketing. Another effective arrangement is CCG's three-way partnership arrangement with Citrus World at Lake Wales, Fla., and Knouse Foods, Inc. at Peach Glenn, Pa., in forming a new

Corn, peas, and green beans are packed at this California Canners and Growers plant at Lomita, Wis.



agricultural trucking cooperative, Ag-World, Inc. CCG has principally used this trucking service for shipments from plants of its eastern copackers to the distribution-center warehouse at Lake Wales.

The cooperative is a leader in maintaining progressive marketing and pricing methods and has been in the forefront on development of new products, such as low-calorie canned fruit.

Operating Problems.—In common with the rest of the industry, management stated that Government price and wage controls had made it increasingly difficult to obtain generally satisfactory margins on canned foods.

Management's Appraisal of Sales Situation

CCG's selling operations reflect the competitive nature of the canned fruit and vegetable business. The company's volume and quality and variety of pack have good selling appeal to large direct buyers. Sales made directly to large chain buyers supplement sales made through an extensive brokerage organization.

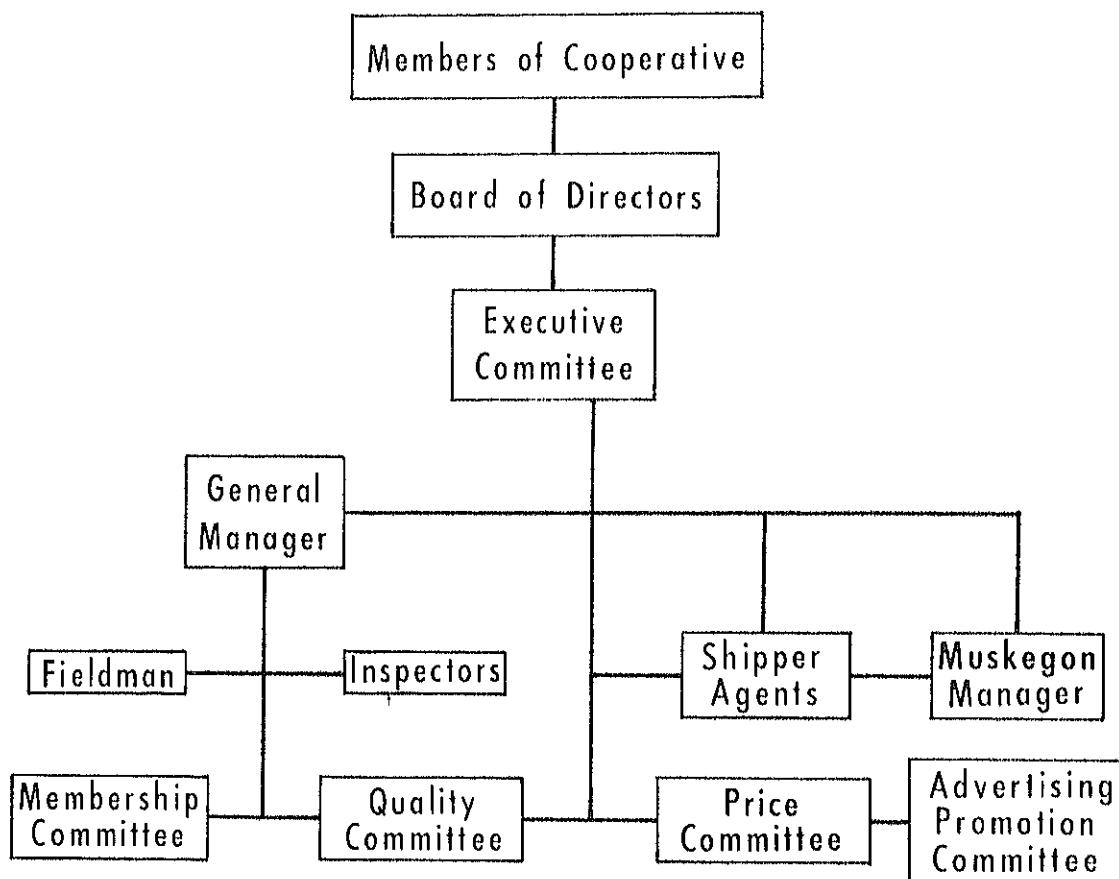
Suggested Guides for an Effective Marketing Approach

The experience of CCG suggests individuals and firms interested in setting up this type of marketing program should:

- Carefully identify the problem area and evaluate all pertinent factors before making a final decision.
- Plan to have a large organization with facilities to handle volume production.
- Screen membership to determine financial stability and the quality and volume of product represented.
- Hire experienced management and assure them a free hand in making marketing decisions.

If the decision is reached to establish the marketing program, CCG recommends the adoption of year-to-year and long-range planning to provide guidelines which permit adjustments to optimize profits and minimize losses. Plans should include raw product procurement, pack development, sales forecasting, and merchandising.

FIG. 3--MICHIGAN CELERY PROMOTION COOPERATIVE, INC.



Grower members are checking a stand of celery for maturity and quality. They plant over a 3-month (or more) period to spread out harvest volume. Mechanization of celery harvesting, as illustrated by this one-row harvester, has largely taken place since 1969. Previously, celery was cut by hand with knives.

Michigan Celery Promotion Cooperative, Inc.

The Michigan Celery Promotion Cooperative (MCPC), Zeeland, is a farmers marketing cooperative organized in 1951. Fundamental purposes of the cooperative are to improve the quality image of Michigan celery and to secure higher prices for the commodity.

At first, the cooperative emphasized the growing end of the celery industry in Michigan to increase production and improve quality. When this effort met with success, the association decided to assume the duties of a marketing cooperative.

In 1962, the cooperative began its marketing program when the growers contracted to make it the legal sales agency for their celery, including the right to sell and set prices for their crop.

Two years later, Michigan Celery purchased the Muskegon Celery Cooperative assets and thereby established a more unified marketing system. Acquired property included 11 acres, a cold storage room, two celery stemming lines, a hydrocooler, and good rail and truck loading docks. Acquisition also assured the cooperative of more early celery available from the major shippers handling sales on contract for the association. The cooperative improved efficiency of operations in 1968, when it changed to hydrocooling crates on pallets of 24 per unit.

In 1969, Michigan Celery constructed another cold storage room with dock and a loading pit adjacent to the west end of the Muskegon plant and equipped it with refrigeration. During the same year, the cooperative also constructed a 40-by-144-foot building on its Hudsonville property to use as a central packing plant for member growers.

Michigan Celery's supply program is handled by its general manager, who makes all purchases of supplies for the cooperative. Supplies consist principally of celery crates, crate liner paper, weather protection paper, and plastic for early spring plantings.

The cooperative's membership represents about three-fourths of the State's producers and a like proportion of the production.

Organizational Structure

Michigan Celery Promotion Cooperative is the exclusive marketing agent for members' celery.

Grover members of the cooperative elect the board of directors and provide a substantial portion of the cooperative's capital requirements. Important features of the association are shown in figure 3.

The cooperative's sales commission is 8½ percent of f.o.b. sales price which goes to its shipper agents. In addition, the cooperative withholds 1½ percent of f.o.b. sales price and 5 cents per crate-equivalent from its grower members as a service charge.

Eligibility for Membership.—Active membership in the cooperative is open to any person, firm, partnership,

or corporation approved by a majority vote of the board of directors. Members must execute a marketing contract and meet other conditions prescribed by the board of directors.

A nonproducer of agricultural products may become an associate member of the cooperative for an annual membership fee of \$10. Associate members have no vote and cannot serve as officers or directors.

Voting.—Members have one vote for each share of common stock owned. Members are required to purchase one share of common stock for each acre of vegetables marketed through the association in the previous calendar year, except that no member shall have more than 5 percent of the total shares.

Marketing Contract.—Michigan Celery has a marketing agreement between itself and its members, which gives the cooperative the right to sell and set prices for the members' celery crop. In addition, the cooperative has a celery marketing agreement with 10 sales agents, who sell this celery under the cooperative's specified terms and conditions.

An important feature in the marketing agreement between the cooperative and its member-growers gives the cooperative the right to regulate volume and quality. This includes celery of any size, pack, variety, and maturity shipped to selected marketing areas. The directors also consider the best interest of the celery industry in making regulations.

Financing.—The cooperative's sources of financing have been common and preferred stock and mortgage bonds.

As of November 1972, the capital stock outstanding was about \$231,000 and total mortgage indebtedness was \$78,000.

Management.—The board of directors is composed of 12 members elected for 3 years. Terms are staggered so that four members are elected each year.

The president, vice president, secretary, and treasurer of the associations are elected from the board of directors for 1-year terms and until their successors are elected and qualified, except that the secretary need not be a member of the board.

The executive, membership, and advertising and promotion committees are appointed by the board of directors. Price and quality committees are elected by the stockholders at the annual meeting.

The *executive committee* is composed of the officers of the corporation, plus one other member. Duties include drawing up the budget and financial programs, signing shipper agents, investigating violations and problems referred by other committees, and being responsible for employee activities, wages, and evaluations.

The *membership committee* signs up members and associate members, acts as nominating committee, and evaluates membership program and complaints.

The *price committee* is composed of five members elected for a 2-year period which meets to discuss the market situation and sets and posts the daily f.o.b. price.

The *quality committee* consists of four members elected for a 1-year term, with responsibility to check on and report on quality conditions in their area and recommend changes in Michigan Celery's standards.

The *advertising and promotion committee* has five members for 1-year terms with responsibility for the advertising and promotion programs.

Policies.—Objectives of the cooperative are to improve the quality image of Michigan celery, earn for the grower the greatest return for his celery under fair conditions, and build the long-run profitability of the Michigan celery industry. These objectives are being achieved by establishing strict quality standards enforced by Federal-State inspection and by maintaining uniform, realistic f.o.b. market prices at all sales offices selling cooperative members' celery.

The cooperative has published an excellent policy-organization handbook, which details the policies and procedures for its membership, administration, shipper agents, and employees. It also includes information on price and quality policies and procedures.

Marketing Operation

About 85 percent of the cooperative's celery normally is sold on the fresh market. This quantity of celery is cut, graded, and packaged by the individual grower members. Celery then moves to shipper-agents, designated by the cooperative, who hydrocool, sell, and load the celery for distribution.

All celery sold under the MCPC No. 1 grade has to meet and, in some respects, such as length of midrib, exceed U.S. Extra No. 1 quality standards. Daily Federal-State inspection insures that top quality is maintained. Normally, only about 1 or 2 percent of the cooperative's fresh celery marketed is below this MCPC No. 1 minimum.

Balance of the members' celery is handled by Michigan Celery through its Muskegon plant to meet demand of processors. When preparing celery for the processor, the leaves, heart, and butt are removed and only the usable stalks are left. In addition to the prepared stemmed or stick celery, the cooperative also furnishes the processors a sliced celery service. After being chilled, the butt end of celery stalks are cut leaving individual limbs with leaves attached. These are sliced in a precision machine that produces cross-section slices of one-fourth to one-half inch as required by the user. Michigan Celery's ready-to-process product has given processors considerable savings in freight and labor costs over bulk celery.

For processed bulk celery, the payment to growers, is based on a recovery rate of 70 percent salable finished product.

Pooling.—Michigan Celery began paying its members for celery by pool method in 1964. The pool is operated on a weekly basis, with the celery handled by size. About 90 percent of the total pooled volume falls within the highly valued, two dozen to three dozen size range.

Sales.—Sales value of the cooperative's celery has shown a considerable increase over the past 5 years, whereas quantities sold have stabilized around 1.1 million crate-equivalents (table 1). A 2-percent increase in tonnage in 1972, compared with 1968, meant a sales increase of about 60 percent—from \$2.4 million to \$3.9 million. This sales increase indicates that grower-members are involved with a progressive cooperative utilizing a good sales program.

Table 1—Celery sales of Michigan Celery Promotion Cooperative, 1968-72

| Year | Amount sold 1,000 crate-equivalents | Value 1,000 dollars |
|------|--|------------------------|
| 1968 | 1,022 | 2,418 |
| 1969 | 1,083 | 3,362 |
| 1970 | 1,100 | 2,991 |
| 1971 | 1,115 | 3,477 |
| 1972 | 1,047 | 3,851 |

Markets Served.—The two largest markets served by Michigan Celery are nearby Chicago and Detroit. Other important markets for the cooperative's celery include Cincinnati, Atlanta, St. Louis, Miami, Cleveland, and Pittsburgh. The cooperative's marketing program concentrates on the Eastern United States. All shipments are made by truck.

Sales Methods.—The cooperative currently contracts with 10 commercial sales agents to handle marketing members' celery designated for the fresh market.

The cooperative's contract with its sales agents has an enforced quality-control program, which includes rejection of all celery not meeting requirements and mandatory enforcement through Federal-State inspection. Agents are paid by the cooperative for the use of their services and facilities based upon a contracted schedule.

The cooperative prepares and markets all celery for processing. In 1972 more than 80 percent of the processing celery marketed was sold on contracts.

About 85 percent of the members' celery is handled through direct sales for the fresh market by the cooperative's commercial sales agents. Balance of the celery is marketed in semiprocessed form by the cooperative to commercial processors.

Most direct fresh sales of celery go to corporate chain buyers with the rest distributed to wholesalers and terminal markets.



MCPC grower-member packs fresh market celery at on-farm facility. After the vegetables have been trimmed and washed, packers visually grade and size the stalks as they pass by on a conveyor.

Brand Policy.—The cooperative's fresh celery is marketed under its "Emblem of Quality" and prepackaged celery is labeled "Crisp, Cool, n' Delicious CELERY." This celery is all MCPC No. 1 grade.

Promotion—About 70 percent of Michigan Celery's promotional budget goes to trade paper advertising, which has proved the cooperative's most effective method of promotion. The rest is distributed between a direct mail campaign and convention exhibits.

Market Information.—The cooperative obtains market information from various sources, including its teletype machine, USDA's market news service, trade papers, sales agents' reports, and direct-phone contacts to other producing areas.

The association keeps interested members well informed through its daily market report and weekly recap of market activities.

Services Provided.—Michigan Celery fully backs its quality guarantee of produce handled by its sales agents.

Major services the cooperative provides its members are marketing the celery at uniform, realistic f.o.b. prices through its sales agents and handling needed supplies.

Quality Control.—The cooperative includes all celery for the fresh market under full mandatory Federal-State inspection to MCPC No. 1 standards, which exceed, in some respects, U.S. Extra No. 1 quality standards.

The cooperative may refuse to accept celery which fails to meet the standard or it may accept a lower grade subject to a penalty of 1 percent of f.o.b. price for each percent below established grade standard.

In addition to its high quality standards, the cooperative has a "Premium Appearance" provision. "Premium Appearance" crates are rewarded with an 8-cent bonus, withheld from pool payments, and paid at end of season. This provision has helped the cooperative achieve a Michigan quality image and is a factor in the premium price that cooperative crates command.

Management's Appraisal of Sales Situation

Management stated the cooperative has brought celery growers a significantly higher price in relation to out-of-State f.o.b. prices.

Suggested Guides for an Effective Marketing Approach

Management suggests the following ways cooperatives can increase efficiency in marketing:

- Increase the number of producers in the cooperative for better market control.
- Improve communication between marketing areas.
- Stress quality improvement of product.
- Provide alternative marketing approaches to include both fresh market sales and processing contracts.

Pro-Fac Cooperative, Inc. And Curtice-Burns

Representatives of three relatively small fruit and vegetable processing firms in Western New York met in 1958 to discuss ways to increase their companies' effectiveness and improve their competitive position in the industry. These three firms were Curtice Brothers Company of Rochester; Burns-Alton Corporation of Alton; and Haxton Foods, Inc., of Oakfield. They needed new capital, as their limited net returns would not permit the necessary plant expansion. Also, the companies were competing in the same market for business under their predominantly buyer-label packs. A possible solution was to consolidate or merge the companies.

Officers of the three companies could not find a mutually acceptable method of merging as a proprietary stock corporation. To determine whether fruit and vegetable growing for processing and processing itself were potentially profitable, corporate heads consulted the management of the Cooperative Grange League Federation, Inc. (GLF), Ithaca, N.Y.¹ Following several meetings in 1958 and 1959, GLF decided to explore the possibilities of encouraging a joint venture of farmers and processors under the control of farmers.

When Haxton Foods, Inc., temporarily withdrew from the discussions, Curtice Brothers and Burns-Alton reaffirmed their desire to proceed without bringing in a replacement.

Farm leaders of Western New York were contacted by representatives of GLF to determine their reaction to the proposed farmer-controlled processing venture. The survey showed that farmers strongly approved of further study on how to establish such an organization.

Spearheaded by a GLF committee, an intensive evaluation was made of all phases of production and processing alternatives. Special emphasis was given to developing a corporate organization best adapted to meet the needs of prospective members. Based on study findings, Curtice Brothers and Burns-Alton decided to consolidate into a new operating company. Facilities would be cooperatively owned and controlled by farmers.

Pro-Fac Cooperative, Inc., was formally organized in October 1960. By March 31, 1961, more than 500 fruit and vegetable growers had purchased common stock in the new cooperative in direct proportion to the tons or acres of product they wished to pledge for delivery to Pro-Fac for a minimum of 3 years.

In accord with the master plan, the corporation of Curtice-Burns, Inc., was then established to process and sell products grown by members of Pro-Fac. This

arrangement vertically integrated growers into food distribution.

On April 1, 1961, Pro-Fac acquired ownership of the plants and equipment of the Curtice Brothers Company and Burns-Alton Corporation at a price of about \$3 million, to be paid over a 10-year period. Included in the transaction were Curtice plants at Bergen, Mt. Morris, and South Dayton, and the Burns plant at Alton.

Later, a study was made to explore the feasibility of acquiring Haxton Foods, Inc. Involved in this study were engineers, accountants, experienced food processing and market experts, as well as key members from Curtice-Burns and Pro-Fac. This comprehensive study indicated that the acquisition was feasible.

Pro-Fac purchased Haxton Foods, Inc., in June 1962 for \$1.5 million, exclusive of inventories, to be paid over a 10-year period. Included in the transaction were processing plants at Oakfield, Wyoming, Le Roy, Barker, and Waterville.

Since 1962, four of Pro-Fac's smaller and less efficient plants have been closed and sold to improve overall economy of operation.

The Empire State Pickling Company was purchased by Pro-Fac in 1965. Unlike the earlier mergers and acquisitions, this company with headquarters at Phelps was set up as a division of Curtice-Burns. Production facilities, including three plants in Ontario County and one plant in Orleans County, are in the center of the country's most productive areas.

In 1965, Pro-Fac built two can-manufacturing plants in Alton and Le Roy. As a result of a 2-year, in-depth study of the company's distribution costs and customer service, Pro-Fac's board authorized the construction of a large canned foods distribution center in Le Roy the same year.

The center, completed in 1966, has 140,000 square feet—room to store more than 2 million cases. Unlabeled fruits and vegetables, in tin cans and glass containers of all sizes, from the company's 10 processing units are assembled at Le Roy. The building houses the traffic department and is the center for the company-owned, contract, and commercial truck fleets.

Central headquarters and sales contact are maintained through direct wire and teletype systems. The distribution center is close to the company's largest can-manufacturing facility.

In 1967, with the acquisition of the P. J. Ritter Company of Bridgeton, N.J., and its subsidiary, Brooks Foods of Mt. Summit, Ind., Pro-Fac expanded its operations beyond New York State.

The Ritter-Brooks acquisition accomplished several corporate goals:

- Additional commodities and growing areas spread weather and product risks. Major commodities added were asparagus, tomatoes, peppers, and canned dry beans.

- About 75 percent of the Ritter-Brooks sales were made under their own promoted labels. Acquisition

¹ Cooperative GLF Exchange joined the Eastern State Farm Exchange to form a new cooperative, Agway, Syracuse, N.Y., as of July 1, 1964.

increased Curtice-Burns percent of sales under then controlled label to about 40 percent.

In June 1972, Snyder Potato Chips, Inc., Berlin, Pa., was acquired. Its major item is potato chips. About 50 percent of the raw product needs are produced in that immediate area. The company also has pretzels and other related snack items. Products are sold under the Snyder of Berlin label.

In 1968, Curtice-Burns adopted an organizational structure involving a small corporate headquarters unit with autonomous operating divisions responsible to the corporate president. At present six divisions are headed by a chief executive officer. An example might be the Silver Floss division, which maintains its own marketing, production, accounting, and personnel facilities.

Organizational Structure

Grower members of Pro-Fac elect the board of directors, deliver their fruits and vegetables to the association, and provide a substantial portion of the cooperative's capital requirements. Important features of the association are shown in figure 4.

Eligibility for Membership.—Persons producing agricultural products and cooperative corporations of these producers are eligible for membership. Prospective members must acquire common stock and be certified by the membership committee as being qualified under conditions prescribed in Pro-Fac's certificate of incorporation and bylaws. A formula is used to determine the amount of common stock required by growers of various commodities. The formula is weighted by such factors as the average price and yield of the crop during a base period.

Voting.—Every member of Pro-Fac has one vote as a stockholder and is entitled to one additional vote for each \$5,000 worth of business transacted with the cooperative up through \$50,000.

Marketing Contract.—Pro-Fac agrees, through a management contract with Curtice-Burns, to handle and arrange for processing and marketing members' fruits and vegetables. Other important points in the association's agreement with its members include the operation of a combined marketing pool, scheduled payment program, and technical assistance in farming practices.

Members agree to appoint Pro-Fac their exclusive agent for processing and marketing the commodities committed under contract and to accept recommendations of the cooperative on horticultural practices and delivery schedules.

Financing.—The cooperative's sources of member financing are from member investments of common stock, retained earnings, and a deferred payment policy for raw product. Retained earnings were originally issued as revolving fund certificates, and commencing in 1970, earnings, other than the 20 percent paid as cash, have

been issued as a certificate that automatically converts to preferred stock after 5 years.

Pro-Fac obtains its seasonal loans and long-term loans from the Springfield Bank for Cooperatives.

Financing of Curtice-Burns is from its common stock, its borrowings from Pro-Fac Cooperative, and from commercial banks. Agway owns approximately 65 percent of the 298,000 outstanding shares of common stock (\$10 par value) of Curtice-Burns, Inc. Balance of the stock is owned by officers and employees of Curtice-Burns and a limited amount by Pro-Fac members. Curtice-Burns is currently working toward making a public stock offering.

Bank value of common stock was \$24.39 per share at yearend, March 31, 1972.

Board and Management.—Pro-Fac's board of 13 directors is elected for a 3-year period (after the original nominations were staggered in 1-, 2-, and 3-year terms) by stockholders from each of seven regions. The number of directors per region approximates the relative amount of produce marketed from that region.

The president, vice president, secretary, and treasurer of the association are elected from members of the board. The board is a policy-making group. It delegates corporate management to the general manager. The general manager is also an officer of the Curtice-Burns management team.

The board appoints membership, commercial market value, budget, and finance committees. The membership committee is responsible for recommending to the board actions or changes affecting membership, including applications for membership, disciplinary action against members, and changes in members' acreages or tonnages.

The commercial market value committee advises the board on prices to be paid for members' raw products. Commercial market value is the weighted average price paid by buyers in Pro-Fac's operating territory or competing areas for a similar product used for a similar or related purpose.

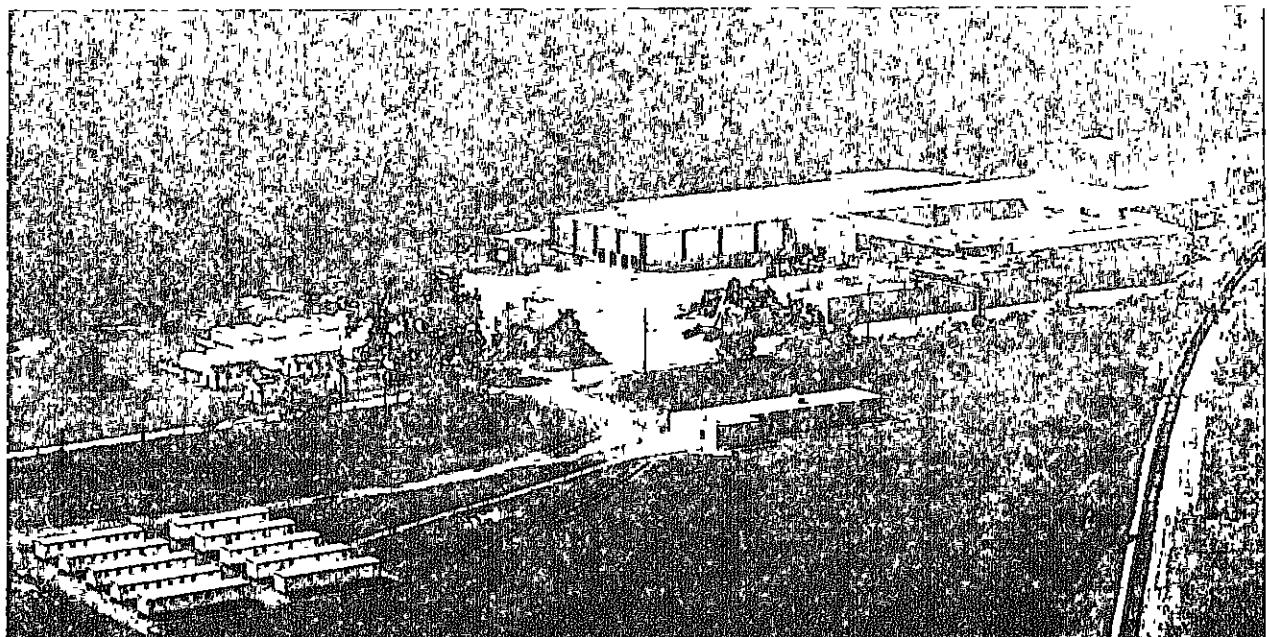
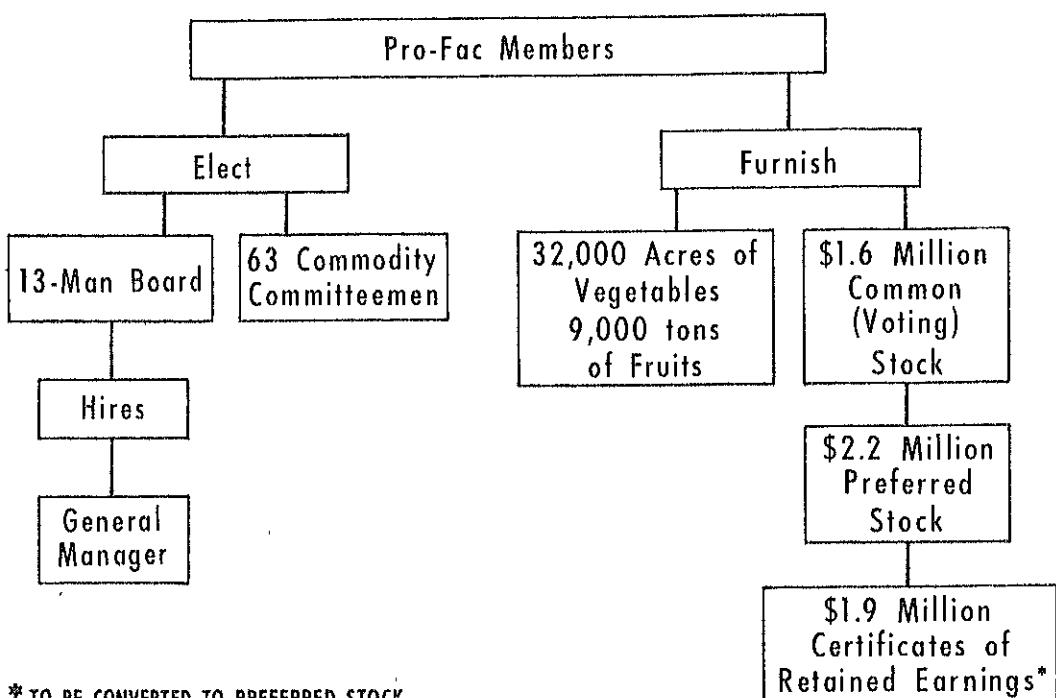
Each major crop has a commodity committee. Commodity committees of the various crops counsel with management on policy matters affecting specific crops. It makes available to members the policies established by the board and represents the board in arbitrating disputes which may arise between management and a member of a local plant.

Special committees, appointed by the board from time to time and terminated after accomplishing their purpose, include commodity study committees and long-range planning committees.

Pro-Fac has one director nominated by Curtice-Burns and one director nominated by Agway on its board.

The board of directors of Curtice-Burns consists of 15 individuals selected for 1-year terms. It functions primarily as a policy group and hires management to operate the business. The board is responsible for the election and supervision of officers, including the presi-

FIG. 4--PRO-FAC COOPERATIVE



Peas, corn, lima beans, and beets are processed in this plant at Leicester, N. Y. Modern seasonal housing quarters and a cafeteria are in the foreground.

dent, executive vice president, vice president, secretary, and treasurer.

Curtice-Burns, although a separate business entity from Pro-Fac, has representatives from Pro-Fac and Agway on its board of directors.

Committees appointed by Curtice-Burns include budget, long-term finance, nominating, commercial market value, and special committees appointed when the need arises.

Policies.—Major objective of Pro-Fac and Curtice-Burns management is to improve returns to fruit and vegetable producers by enlarging operations to achieve the most efficient use of facilities and an increasingly important voice in the marketplace for Pro-Fac members. Curtice-Burns is dedicated to returning commercial market value to Pro-Fac membership and acquiring adequate retains for successful operations of both companies.

Operations

Curtice-Burns leases the plants owned by Pro-Fac and processes the crops of Pro-Fac's grower members, sells finished products, and pays Pro-Fac from the proceeds.

Pro-Fac grower members supply the major share of crops processed and sold by Curtice-Burns. Members' principal crops are green and wax beans, corn, beets, green peas, cabbage, asparagus, tomatoes, potatoes, and apples. Other crops include carrots, red sour pitted cherries, and lima beans.

Products processed and sold for Pro-Fac members include both canned and frozen fruits and vegetables. Canned vegetables account for about three-fourths of the total pack.

Pro-Fac delivers to Curtice-Burns farm produce for which it is paid a price equal to the average commercial market value plus the net proceeds, or minus the losses, from the sale of finished products processed from raw produce.

Curtice-Burns pays Pro-Fac members 50 percent of the raw-product value at time of delivery. Growers receive an additional 25 percent of the value at the end of the next 4 months, with the final payment, if earned, being received after the end of the fiscal year. In addition, Pro-Fac distributes to members at the end of the fiscal year any net margins received from Curtice-Burns. Twenty percent is paid in cash and the balance issued as a certificate. Net margins are allocated in proportion to the total commercial market value of products delivered by each grower. Retained earnings are used by Pro-Fac as working capital.

Curtice-Burns has continued to expand its non-Pro-Fac operations, such as the production of carbonated beverages and hot chili beans. The enlarged operation keeps its plants operating over a longer period and results in improved efficiency and reduces average costs chargeable to Pro-Fac crops.

This type of integrated operation gives growers an opportunity to share in possible proceeds above the value of their harvested crops. Also, it spreads the risk of loss when overproduction forces market prices down. Each year Pro-Fac and Curtice-Burns develop production schedules that fit the sales department's normal expected sales volume. This procedure helps keep the cooperative from producing beyond its sales potential.

Pooling.—Pro-Fac operates on a multicrop, single-pool basis. The pool is closed at the end of each fiscal year. The single pool includes all stock-supported crops delivered in a fiscal year. Proceeds are allocated to the crops on the basis of commercial market value as determined by the board of directors.

Net Sales.—Curtice-Burns increased its net sales from \$13.1 million in the first season's operation, 1961-62, to \$62.2 million in 1972-73. Sales have reflected an increased volume in most years and the outlook for continued growth is promising, as the following tabulation shows.

| Year | Net Sales 1,000 dollars |
|------|----------------------------|
| 1962 | 13,101 |
| 1963 | 18,055 |
| 1964 | 21,045 |
| 1965 | 23,355 |
| 1966 | 26,292 |
| 1967 | 33,257 |
| 1968 | 51,986 |
| 1969 | 52,159 |
| 1970 | 48,842 |
| 1971 | 58,670 |
| 1972 | 59,013 |
| 1973 | 62,232 |

Markets Served.—The organization packed about 340 million pounds of processed fruits and vegetables for sale in the United States during the 1971-72 season. Sales outlets include an area bounded on the west by Kansas City, on the north by Portland, Maine, and on the south by Miami, Fla. About one-half of the total volume of produce is shipped to five large cities—New York, Chicago, Boston, Philadelphia, and Pittsburgh.

Selling Methods.—Curtice-Burns sells approximately 60 percent of its volume directly to buyers; 40 percent is handled by brokers. Most direct sales are made to retail store buyers, predominantly chains, with the balance handled through wholesalers and institutions. Curtice-Burns representatives claim that neither type of sales has a price or cost advantage over the other. However, they do believe that direct selling results in better service and a closer tie-in with the company's sales organization.

Brand Policy.—Curtice-Burns still sells most of its products under chainstore labels. In its first year of operation, more than 90 percent of its sales were under these buyers' labels. At present, sales under the chains'

labels has become 60 percent of total sales. Sales under company-owned labels amount to about 40 percent of the total.

The company's principal brands are Blue Boy (New York State fruits and vegetables), Silver Floss (sauerkraut), Ritter (asparagus, tomato products, relish), Brooks (tomato products and dry bean products), and Snyder's (potato chips and other snack foods).

Promotion.—Curtice-Burns uses radio, television, magazine, and newspaper features in its promotional program. In addition, allowances are given retail stores for special promotions and for advertising brand products. Company salesmen and broker retail men help store managers push brand products by assisting with display arrangements and merchandising techniques.

The company's management believes that products can be promoted most effectively by hiring experienced, personable salesmen; supporting them with a variety of merchandise of good quality; and having a competitive pricing policy. Curtice-Burns strives to have some type of promotion underway each month of the year. This policy is expected to be maintained in all future promotions.

Market Information.—All pertinent material from trade journals, newsletters, and USDA reports is analyzed by the corporate marketing vice president and the divisional sales managers. This market information is passed on to the sales force, including the brokerage contacts. Daily market information is obtained from brokers' reports and from major buyers.

During the planting, harvesting, and packing seasons (mid-April through December), the production department of the various divisions issues a weekly bulletin to the sales department and management that summarizes information on the previous week's production and gives

short-term crop forecasts. The sales department issues reports to the production departments outlining the sales picture of the previous week and highlighting any major changes from normal sales operations that are likely to occur in the future. Grower members are also kept fairly well informed on supply and demand conditions for major commodities.

Services Provided.—Curtice-Burns gives its customers conventional trade discounts for cash. In general, the company notifies its customers 10 days before any price rise is to occur. The company guarantees product shipment within 48 hours after receipt of shipping instructions.

The operating company has an experienced field department that provides growers with information on orderly planting and harvesting of crops to avoid temporary gluts at the plants. Fieldmen supply growers with a complete soil test and advice on the use of fertilizers and adaptability of fields to various crops.

Quality Control.—Curtice-Burns strongly believes in supplying quality merchandise and uses all the tools of quality control to assure a good reputation for Pro-Fac's products.

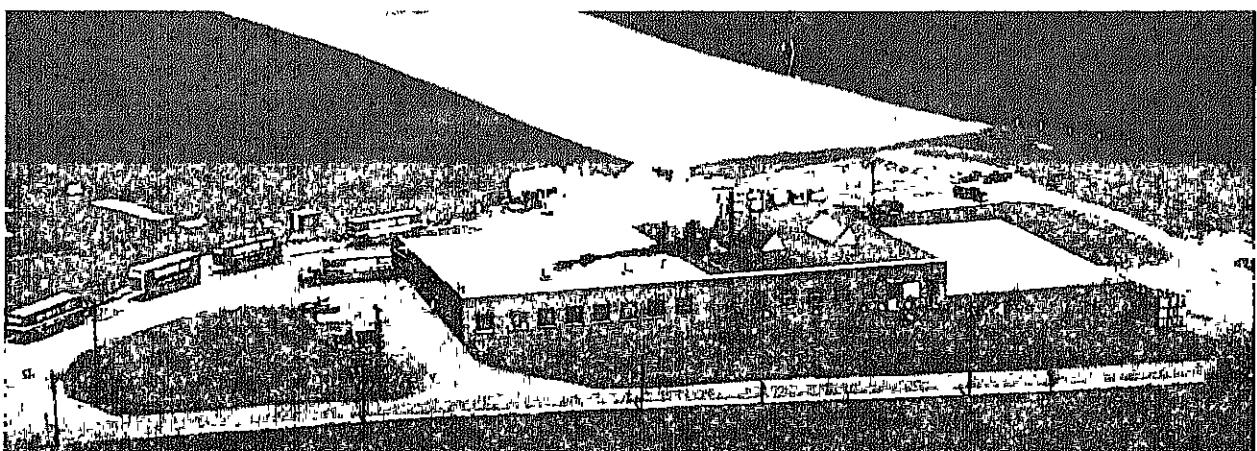
Federal and State inspectors examine the raw products on delivery.

In addition to some continuous USDA inspection, the company has its own quality-control department with representatives in each plant as well as in the central office. Personnel of this department are not responsible to production personnel.

Rigid quality control is maintained for products with private labels that have been consistently rated in the top 25 percent of quality merchandise in the areas serviced.

To maintain this quality level, company representatives travel to cities twice a year to select samples of actual deliveries of both private-label and brand products

This Berlin, Pa., plant processes and stores potato chips.



and of competing deliveries. Quality-control personnel remove the labels, code the cans, and compare the products according to USDA grading standards.

Operating Problems.—Management of Pro-Fac and Curtice-Burns constantly cope with many production, processing, and marketing considerations. Some of their continuous responsibilities are to:

- Develop markets for processed crops as rapidly as members are increasing yields per acre.
- Maintain company earnings at a sufficient level to purchase new machines and facilities to avoid obsolescence in the processing operation.
- Make sure growers annually add sufficient capital to keep the equity loan ratio in proper balance.
- Provide sufficient earning power and fringe benefits, including profit participation plans and adequate provisions for retirement, to attract new, young "backup men" and at the same time satisfy current line and staff personnel.
- Analyze crops of the producing area to make sure they remain competitive in cost of product with other areas.

Management's Appraisal of Sales Situation

A fair division of sales proceeds is essential to success. The equitable method devised by Pro-Fac and Curtice-Burns is to (1) pay grower members of Pro-Fac for their crops on the basis of commercial market value, and (2) prorate any net margins at the end of the year between the two corporations. Pro-Fac gets at least 50 percent, but never more than 70 percent of these net margins for distribution to its members.

Curtice-Burns management believes increased direct buying of processed fruits and vegetables has reduced selling problems. The company can offer a greater quantity of any specified pack than can most competi-

tors. This sales factor has a strong appeal to large direct buyers such as chainstores.

A large processing and marketing company, such as the Pro-Fac Curtice-Burns complex, can afford to have continuous inspection of its products. Cost of a complete quality-control program is practically prohibitive for a small processing operation.

Demands of buyers for increased varieties of pack can be readily handled by the corporate complex, as its cannning plants offer an excellent variety of products.

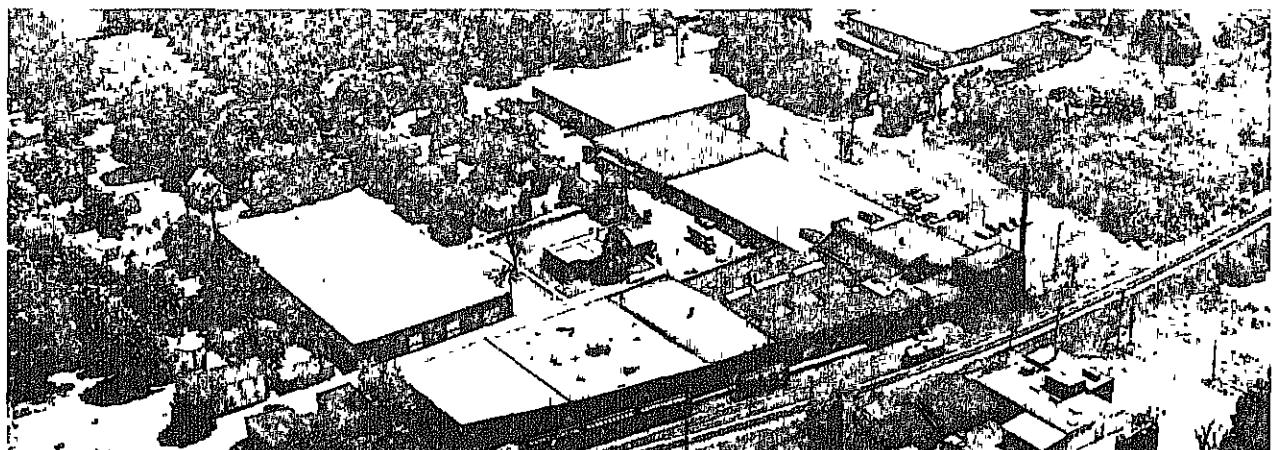
Some buyers resist purchasing a large portion or all of a given commodity from any one supplier. This resistance has become less noticeable each year. Previously, some purchasers had been able to bargain more effectively with the individual cannning companies that Pro-Fac absorbed by pitting one against the other.

Suggested Guides for an Effective Marketing Approach

Combined experience of Pro-Fac and Curtice-Burns suggests that organizations or companies setting up an effective marketing program should:

- Identify factors contributing to a sound business policy and adhere to them. Only relatively successful growers and basically sound processing plants should be considered in organizing this type of operation.
- Require grower members to make a substantial investment in the organization at the outset and to continue to invest in the form of products marketed and retained earnings.
- Obtain experienced professional managers who are responsible only to the board of directors through one individual.
- Organize the operation with sufficiently large units in both farming and processing so that it will be in the top 30- to 40-percent size range of all fruit and vegetable processing and marketing firms.

After this study was completed, Curtice-Burns, Inc., acquired Michigan Fruit Canners, Benton Harbor, late in 1973. This plant is at Fennville.



MARKETING BY JOINT SELLING

Fruit and vegetable firms that recognize a need for improving their competitive sales position but desire to maintain their organizational identities should consider a joint marketing approach for enlarging and strengthening their market operation. This type of coordinated marketing is done by American Farms Cooperative, Citrus Central, Mutual Vegetable Sales, and Texas Citrus Exchange.

American Farms Cooperative, Inc.

Small, independent packers of canned fruits and vegetables in Wisconsin experienced a struggle for survival in the 1950's. During this period, the number of firms declined from 123 in 1950 to 74 in 1959. In the crucial period from 1956 to 1959, about 30 fruit and vegetable canning firms closed down or sold out to larger companies. Problems of small canners, such as competition with larger, more diversified companies and the need for low-cost financing, led to a growing realization that some form of joint action among smaller processors would be necessary to strengthen their economic position.

Considerable thought and preparation were devoted to the merits of having a jointly-owned corporation handle processed fruits and vegetables before actual formation of American Farms Cooperative, Inc. The first formal meeting to work out plans was held early in March 1959. At this meeting, the decision was made to appoint committees from Wisconsin packers to confer with counterpart committees from both the tri-State (Delaware, Maryland, New Jersey) and Ohio areas to work out the final details for a cooperative. Committee members visited marketing and joint sales agencies in selected States and studied their methods of operation. Despite all the study and preparation, the committee was unable to get a sufficient number of packers committed to the proposed cooperative to justify an operation on a national scale.

Recognizing a need for some form of joint action to improve their competitive market position and strengthen their ability to obtain adequate financing, a small group of independent Wisconsin canners, who had taken the initiative in earlier meetings, organized American Farms Cooperative, Inc., in the spring of 1959.

From this modest beginning, membership enlarged in the vegetable-producing area of the Midwest and expanded into the principal fruit and vegetable production areas of California and the Pacific Northwest, as comprehensive marketing programs increased the need for product diversification.

Organizational Structure

American Farms Cooperative, Inc., was organized in 1959 as a jointly owned corporation emphasizing mar-

keting and finance for its members. This marketing cooperative, incorporated under Wisconsin law, has executive headquarters in Waupun, Wis. Membership currently includes nine corporate producers that are affiliated with 14 individual canneries. In some instances, the associated canneries qualified for affiliation with American Farms by forming a farm corporation, which is the actual member of the cooperative. In other instances, members qualified by being actual producers in grower-owned cooperatives. When eligibility requires a farm corporation to be formed, ownership of the farm corporation is the same as that of its affiliated canning corporation, and capital stock is held in the same proportion as in the affiliated cannery.

Eligibility for Membership.—Any person, firm, partnership, corporation, association, or cooperative engaged in producing agricultural or horticultural products that acquires one share of common stock of the association, executes a marketing contract, and meets other conditions prescribed by the board of directors is eligible for membership in American Farms.

The board of directors acts upon the request for membership and through majority vote accepts or denies the application. However, the board delegates the final decision to an executive committee.

Voting.—According to Wisconsin's State law for cooperatives, every member of American Farms has one vote.

Marketing Contract.—American Farms uses a contract that permits each member to make its own decisions on production and sales. The association agrees to make every effort to sell the products of the producer as rapidly as practicable at the price and on the terms established by the producer. The current market contract is for 1 year and is automatically renewed unless one of the parties notifies the other in writing, by registered mail, at least 60 days before the end of the year.

Capital Structure.—The cooperative is organized on a capital stock basis. The organization's capital stock outstanding as of March 31, 1973, was \$194,918, consisting of common stock of \$4,500 (each member owns one \$500 share) and 190,418 shares of preferred stock at \$1 a share. The cooperative also has a substantial seven-figure seasonal line of credit with the St. Paul Bank for Cooperatives to finance its inventory.

Bylaws grant the board of directors authority to sell preferred stock as a means of acquiring and maintaining adequate capital to finance the business. Each new member subscribes to preferred stock in the amount formulated by his intended use of the cooperative facilities. Capital funds obtained from the sale of American Farms stock are used in the factoring process by which the cooperative remits to its members the net



A green-pea combine typifies the mechanical harvesting used for all principal vegetable canning crops

proceeds of each sale promptly after receiving the invoice or a copy of it.

Currently, 0.5 percent of members' sales proceeds are charged as an administrative fee to defray the members' proportionate share of all costs of operating and maintaining the cooperative. The board of directors has authority to determine any change in this administrative charge.

Revolving Fund.—Bylaws of American Farms Cooperative, Inc., state that the association may establish and maintain a revolving fund to acquire and maintain adequate capital to finance its business. This fund is called a reserve for financing in which each member's equity is accounted for.

Financing Members.—Members have available to them the same credit sources available to all business organizations. In addition, they can obtain financing through American Farms Cooperative from the St. Paul Bank for Cooperatives. The loan agreement with the St. Paul Bank provides that American Farms Cooperative is to purchase class "C" stock of this bank aggregating 10 percent of interest paid on the loan.

Management.—Management of the association consists of the board of directors, elected corporate officers, and an executive committee. Directors are elected for 1-year terms at the annual membership meeting. The board of directors has appointed an executive committee consisting of the president and one director from the Midwest production area, and one director from the West Coast production area. Provision is made for alternates to serve on the board of directors as well as the executive committee.

Officers include a president, vice president, secretary, and treasurer, who are elected from the board of directors.

Policies.—Current policy of American Farms coordinates marketing and financing of its members and expands sales through increased tonnage and product diversification.

Members have a choice of selling their products directly to customers, through brokers, or through the cooperative. The cooperative sells directly and through brokers.

The cooperative makes sales for nonmembers to keep a full line of canned merchandise available for customers.

American Farms has set the following goals for each of its members:

- Reaching production levels of optimum efficiency and profitability. The cooperative's need for product encourages maximum profitable volume. Because of its wide customer diversification, it can move high-quality, high-priced merchandise. Strong recommendations are made by American Farms' salespeople as to container sizes for various qualities, sieve sizes, and the like but final and absolute control of production stays with the member in his own plant. Members are asked to submit prepack budgets for discussion and possible advice from American Farms' salespeople
- Rapid, orderly disposing of inventory at high market prices. American Farms headquarters' personnel run periodic analyses of product movement

for all members to alert salespeople in the organization to the necessity of orderly liquidation.

- Retaining, expanding, and exploiting each company's own good customers while gaining exposure to new and diversified customers with whom to build regular business.

To reach these three goals, American Farms insists that members follow the concepts listed below:

- Individual prepack budget preparation.
- Fielding the crop to yield the best possible quality.
- In-plant canning processes of the highest order.
- Adequate detailed can-code marking.
- Next-day grading on a standardized system.
- Daily pack reports by grade.
- Post-pack regrading.
- Conversion of standardized grading into commercial categories.
- Full and detailed inventory reports kept up-to-date.
- Realistic set-asides which are not speculative.
- Realistic market pricing of unsold inventory.
- Constant communication on sales, inventory withdrawals, market prices, special or individual sales effort, with special emphasis on prompt servicing of shipping instructions, prompt accurate invoicing, and the like.

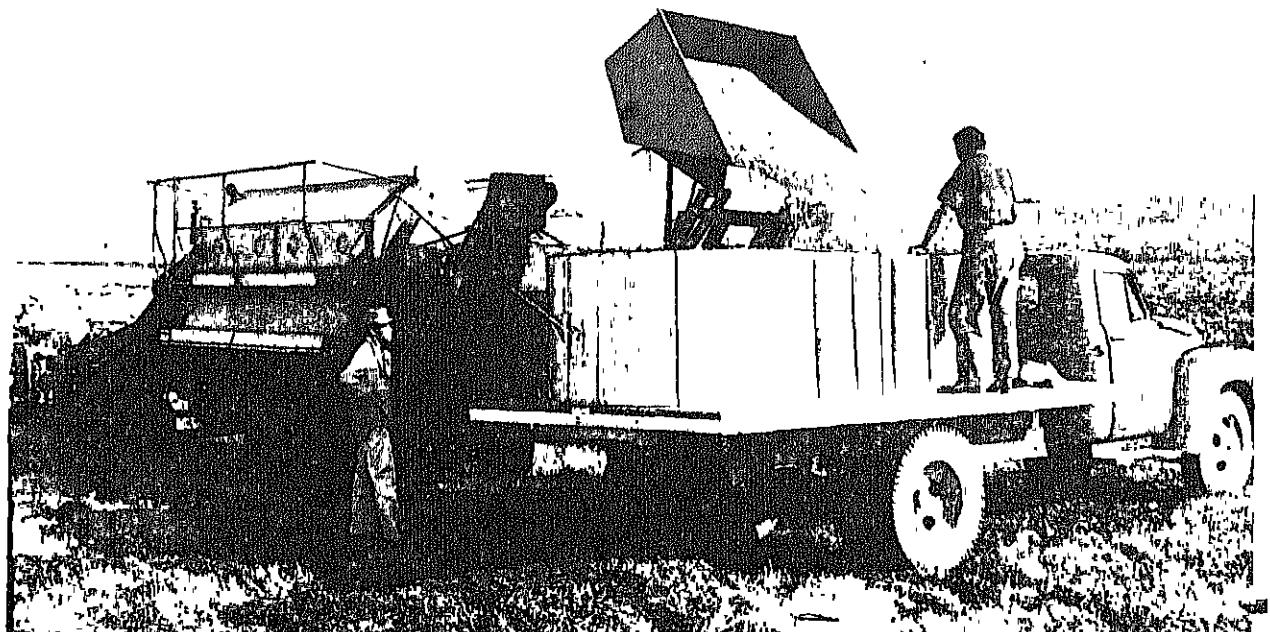
Operations

American Farms markets canned fruits and vegetables processed by its members' canning facilities. Crops produced by members include green and wax beans, beets, carrots, corn, lima beans, sweet peas, cranberries, apples, potatoes, tomatoes, asparagus, spinach, sweet-potatoes, Cling and Freestone peaches, Bartlett pears, apricots, Blue Lake beans, purple plums, dark sweet cherries, Royal Anne cherries, red raspberries, and strawberries. Products sold for nonmembers include mushrooms, mandarin oranges, pickles, pineapple, citrus, seafood, and dry-packed items.

The association maintains a sales office in Wisconsin and one on the West Coast. Sales efforts of the two offices are coordinated by the executive committee, on which the president, the vice president in charge of marketing, and the director of West Coast sales serve as permanent members.

Sales.—The first year's sales of American Farms and its members during the fiscal year ending March 31, 1960, totaled \$3.3 million. In the fiscal year ending March 31, 1973, sales totaled \$20.7 million.

Markets Served.—The association and its members sold about 175 million pounds of canned fruits and vegetables during the 1972-73 marketing season. Principal receiving markets for the association's products are retail trade and food service industries throughout the continental United States. The association solicits and has been successful in securing a modest share of the growing export business. Sales to U.S. Government agencies are generally negotiated by members themselves on a bid basis.



Green peas, shelled in the field by huge combines, will be processed within 2 hours at Wisconsin cannery.

Services Provided to Members—Principal benefits to the small- or medium-sized producer for joining American Farms are in the areas of sales exposure and financing. Members' benefits in the area of sales exposure are:

- Customer contacts.—American Farms is an accredited supplier to more than 200 principal retail and institutional U.S. grocery buyers.
- Resident and field brokers' relations.—The co-operative's account is more valuable to the independent contractor-type sales representative than the account of a small- or medium-sized canner because of product diversification from both the Midwest and West Coast. This results in lower sales costs.
- Pricing advantages.—Historically the supply-and-demand situation for canned products varies from year to year and product to product. Using a joint marketing approach, a supplier of diversified products is not forced to take the lowest price for an oversupply item because the buyer needs a steady supply of items, whether in low supply or oversupply.
- Direct selling opportunities.—Product diversification of American Farms permits direct negotiation with large chains and food service (institutional) buyers, eliminating much sales expense, principally resident brokerage fees.

Members' benefits in financial arrangements consist of:

- Short-term financing.—By conditionally selling (until resale to the grocery buyer), its finished product to American Farms and receiving 60 to 65 percent of its market value at substantially below the prime rate of interest, seasonal working capital costs are reduced considerably and borrowing power is directly correlated to production rather than commercial lines of bank credit.
- Long-term financing.—The trend of processed food industries is toward vertical integration. Mechanization of farming operations requires credit purchases of labor-eliminating capital equipment. American Farms can buy agricultural equipment for resale to its members on credit terms of one-third down with two-thirds spread over 5 years at below prime rates of interest. These rates are computed as simple interest paid quarterly with principal payments made at the end of each year on the loan anniversary.
- Commercial open-line credit.—Each member has complete freedom to use his commercial bank as a convenient and cheap source of open-line credit.

Management's Appraisal of Co-op's Sales Situation and Potential

During the last fiscal year, American Farms spent approximately 6 percent of its headquarters' budget in new and potential membership affiliations. Extensive legal and financial investigations were initiated with agriculturally oriented, vertically-integrated foodstuff producers of canned and frozen commodities.

The future looks bright for continued expansion in canned goods and American Farms' reputation for fine fruits and vegetables opens sales possibilities for its own horizontal expansion into the fields of meat, poultry, and fish.

Cooperative vertical integration initiated by producers is a growing trend in these agricultural activities. Consumers, particularly at the retail level, are influenced by USDA grades on the product. Hence, less resistance is encountered at the wholesale buyer level for private-label, Government-graded meat, fish, and poultry. This suggests American Farms' private-label sales and financing techniques can move into this area of food production and distribution with resulting economies to the consumer and higher profits for the producer.

Suggested Guides for an Effective Marketing Approach

Members of American Farms believe the uniqueness of their pioneering effort offers possibilities to other small processors faced with increasing competition by large national organizations. They suggest firms planning to develop a joint marketing agency consider the following points:

- Requiring members to provide a constant flow of income to the cooperative whether or not they avail themselves of the association's services.
- Furnishing services in addition to sales. For example, success in obtaining working capital will encourage other processors to participate in a joint sales effort. Consolidating shipments of assorted products of members and assembling these products at appropriate shipping points without charge to members will also encourage participation.
- Acquiring a reputation in the trade for handling quality merchandise before undertaking an expensive promotional program.
- Having a long-range goal of centralizing sales in the association. Allow members sufficient time to shift from their existing sales method to the centralized approach.
- Establishing a training program to assure continuity of qualified management.
- Furnishing members with professional assistance through the cooperative's legal counsel, auditing firm, and sales advisers.

Citrus Central, Inc.

Many absentee or inexperienced individuals, as well as professional operators, are included in the countless owners of Florida's citrus groves. Citrus Central was formed in 1965 to assist growers with the complex problems of marketing and to enable them to compete through centralized selling. In addition, Citrus Central provides its members with can manufacturing, research and development, and technical service.

Citrus Central began operations with four member firms, which gradually increased to seven Florida member firms and one affiliated firm as of 1972. Member firms include Adams Packing Association, Inc., Auburndale, Bordo Citrus Products Cooperative, Winter Haven, Citrus World, Inc., Lake Wales; Golden Gem Growers, Inc., Umatilla, Juice Bowl Products, Inc., Lakeland; and Silver Springs Citrus Cooperative, Ocoee. The affiliated firm is Peace River Processors, Wauchula. Complete marketing is done for all the cooperatives, except Adams Packing Association and Citrus World.

The association's processing plants are located within adjoining counties of central Florida. However, the groves, owned by nearly 4,000 different growers, are spread throughout most of the citrus area. Consequently, the extended source of supply helps insure a steady flow of fruit into the plants despite any localized adverse weather conditions.

In 1967, Citrus Central purchased a composite can plant in Orlando from Reynolds Metals and later expanded it into the largest, modern composite can-manufacturing plant in Florida.

The association built a metal can plant in Plymouth, Fla., in 1968 and expanded in 1972. It now can produce more than 300 million cans a year.

Citrus Central's packaging sizes range from 4½- to 46-ounce cans of single-strength juice, and through all the frozen concentrate sizes to 1- and 5-gallon cartons and pails for specialty products. In addition, the association manufactures 55-gallon drums for oils and essences.

Organizational Structure

Citrus Central is the sales agent for members' citrus products and by-products. In addition, its can and container operation, as well as its centralized volume purchasing of various items, provides savings for the members.

By staffing their organization with specialists in all phases of marketing and applying modern business management techniques, Citrus Central renders a service to its members that assures them greater efficiency and effectiveness in the total marketing effort.

Technical service provided by the agency or its member organizations include: Grove care and mainte-

nance, picking and hauling; and inventory and warehousing.

Citrus Central's research and development laboratory has made many important contributions toward quality improvement and new product development.

Superior customer service is assured by the agency's internal and external communications facilities, data processing facilities, and computers.

Eligibility for Membership.—Producers of agricultural products and cooperative associations of such producers are eligible for membership. Prospective members must acquire common stock and be approved by the board of directors as being qualified in accordance with the terms and conditions prescribed by the association in its articles of incorporation and bylaws.

Voting.—Each member of Citrus Central has one vote as a stockholder plus additional votes for volume of patronage up to a total of 4 votes.

Marketing Contract.—Citrus Central has a marketing contract with its members which is in force for 10 years and covers all citrus products. The agency is responsible for the sale of all products except animal feed for its members.

Financing.—Authorized capital stock of the cooperative is \$1 million and is represented by 10,000 shares of common stock with a par value of \$100 per share. As of July 1972, only 1,050 shares had been issued and were outstanding.

Citrus Central has issued revolving fund certificates which have the status of capital. These certificates total \$3.3 million, covering cash, notes, or allocation of retained earnings as of July 1972. Revolving fund certificates are retrievable at the sole discretion of the board of directors.

The cooperative is nonexempt from Federal income tax requirements.

Board and Management.—Citrus Central's current board of 21 directors has a 1-year term of office or until successors are elected at the annual meeting of members.

The chairman, president, and senior vice president are elected from members of the board. The secretary, treasurer, and any other elected officers, as provided in the bylaws and deemed necessary by the board, need not be members of the board.

In addition to the foregoing officers, the board appoints an executive vice president and other vice presidents considered necessary for the operations of the cooperative. The executive vice president is the chief executive officer of the association and, subject to the control of the board of directors, directs and controls the activities and business of the association.

Committees appointed by the board are the executive, marketing, and supply committees.

The executive committee meets every other month and makes recommendations to the board on overall policy and operation.

The marketing committee meets weekly to discuss production and marketing policies. Each member plant is represented on this committee by its general manager. Citrus Central's officers are responsible for implementing these policies, and its various department managers see that these policies are carried out. Management states a position based on the facts available. It is reviewed by the committee and finalized at that time.

The supply committee meets as needs demand and reports to the board on recommended policy as it relates to the supply operation of the association.

Employees.—The association employs about 500 people. About 140 are management employees and the rest are plant employees.

Policies.—Citrus Central's broad objective in its marketing program is to market members' production with the highest possible payments for their fruit. An additional and overriding objective is to market in the United States and the world, using the best techniques available for advertising, promotion, merchandising, and market research.

The cooperative's philosophy is to set sales goals and then meet these goals, even if it requires purchasing additional fruit on the open market to maintain customer relations.

Marketing Operation

Citrus Central's marketing operation offers a full variety of processed citrus products in frozen concentrates, canned single-strength juice, canned grapefruit, and citrus salad sections.

The cooperative has staffed its marketing department with capable specialists in every field to provide customers with complete services. Many of these specialists, prior to joining Citrus Central, had problem-solving responsibilities with some of the most famous and successful marketers of consumer products in this country.

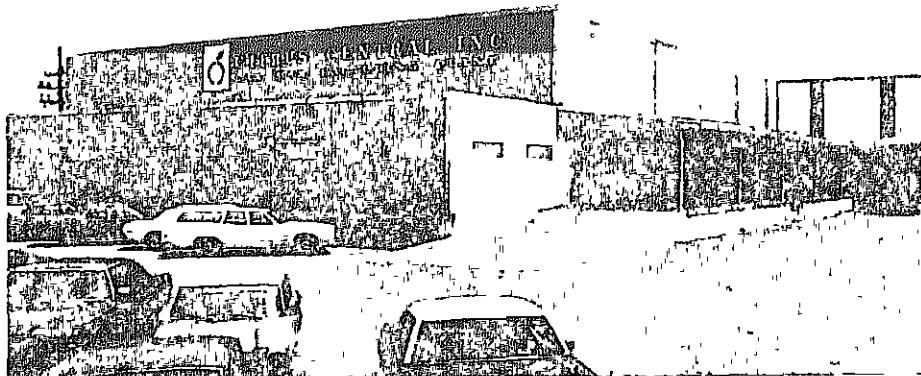
Citrus Central's handling of sales orders is efficient and effective. For example, as its customer service department receives incoming orders, inventories of brands and products are verified and appropriate shipping points are assigned. Orders are coded for both customer and product and, in the case of frozen concentrates, transportation is quickly booked. Orders are then turned over to the information services department for complete processing.

Information services records the order on magnetic tape. When processed on a computer, shipping orders and bills of lading are transmitted by dataphone to the respective plants.

When all pertinent information has been received by the plant operator on magnetic tape, typing of shipping orders and bills of lading is done by typewriters



Citrus Central maintains rigid quality control. Inspection continues while cans are filled and packed.



automatically controlled by the magnetic tape. Customers are informed regularly as to the status and progress of their orders.

Information services uses a National Cash Register-200 computer to assist customers make well-supported decisions. This computer provides the latest information on supplies, sales, and trends. Customers are supplied printouts of the data by their Citrus Central representatives.

Pooling.—On frozen concentrated orange juice, Citrus Central remits 60 percent of estimated sales value at the time it is produced by the cooperative's members and the balance as the pool becomes more than 60 percent sold. Returns for all other products are paid out in relation to product sales.

Services Provided.—Citrus Central basically has supplied the grower of citrus fruit a soundly run organization with new outlets for his products.

The cooperative has taken the responsibility of supplying its member firms a complete marketing function including sales, customer service, distribution, billing, credit, and accounts receivable. In addition, it provides the member with can manufacturing, research and development, technical service, and manufacturing of specialty products. These valuable services enable member plants to return a greater share to their growers than had been accomplished on an individual basis.

Sales.—Value of the association's business for products marketed and supplies purchased increased eight-fold from \$17.8 million for fiscal year 1968 to 142.7 million for fiscal year 1973. The following tabulation shows Citrus Central's volume of business, by fiscal year, for 1968-73:

| Fiscal year | Value of business 1,000 dollars |
|-------------|------------------------------------|
| 1968 | 17,753 |
| 1969 | 51,019 |
| 1970 | 88,872 |
| 1971 | 81,161 |
| 1972 | 104,756 |
| 1973 | 142,739 |

Markets Served.—Principal domestic markets for Citrus Central vary, depending on products sold. Major markets for frozen citrus concentrate include New York City, Boston, Dallas, Toledo, Philadelphia, Miami, and Cleveland. Important receiving centers for single-strength juice include New York City; Albany, Ga.; Philadelphia; Chicago; Richmond, Va.; New Orleans; and Dayton.

Important foreign markets for processed citrus are Canada and Western Europe.

Truck shipments account for 70 percent of the delivered domestic volume; the rest is shipped by rail.

Selling Methods.—About 60 percent of Citrus Central's sales of frozen citrus concentrate is handled



This modern facility belongs to one of the many members of Citrus Central.

through brokers, with the remaining 40 percent going direct. Single-strength juice is sold through brokers and direct about equally.

About 75 percent of all direct sales are made to corporate chain buyers, 23 percent to wholesalers, and 2 percent to institutional buyers.

Brand Policy.—Citrus Central markets most of its products under private labels for the wholesale and chain grocery trade. However, company-owned labels are becoming increasingly important. Currently, 30 percent of the association's products are marketed under the well-established brand names of its member cooperatives.

Brand names for single-strength citrus juice include Seald-Sweet, Bordo, Juice Bowl, and Silver Springs. Frozen concentrated orange juice is packed under the Seald-Sweet and Golden Gem labels. The Bordo label covers sections and salads.

Promotion.—Radio advertising stressing product quality and brand has been the company's most effective promotional activity and is allocated about 68 percent of the promotional budget. The remaining budget is principally allocated to newspaper advertising, with only a small percent going to other media.

Market Information.—Citrus Central obtains market information from the Florida Citrus Commission, Florida

Canners Reports, USDA reports, trade publications, and independent surveys.

The association supplies its members with a list covering any pertinent information it receives. Management also disseminates important market information at the weekly committee meetings.

Prospective buyers are supplied information on shortages, crop conditions, and the availability of product, as well as the current situation on new products or promotions.

Quality Control.—The association's quality control is a standard policy written for its members and supervised by its Technical Service Department. This department works with each individual plant through counseling and advising the member plants' quality-assurance committee.

When processing begins and high-speed sanitary extractors squeeze out juice and separate the oils, seeds, rind, and membrane, continuous laboratory tests are conducted to assure uniformity in color and flavor. Additional inspections are made by teams from USDA and State of Florida.

Operating Problems.—Citrus Central's management indicated that production coordination and inventory control is sometimes a problem because individual companies do business differently. Coordination is being worked on now.

Management's Appraisal of Sales Organization

Management stated that Citrus Central supplies market stability to insure fair returns to its growers.

The association's pursuit of new products has been advantageous in moving fruit that was heretofore slow moving or destroyed.

The strength of Citrus Central as a unified body has given a stronger voice in the industry towards sounder business policies than individual members could have had. This philosophy and judgment has given stability to the industry that was previously subject to the whim of one small company or individual.

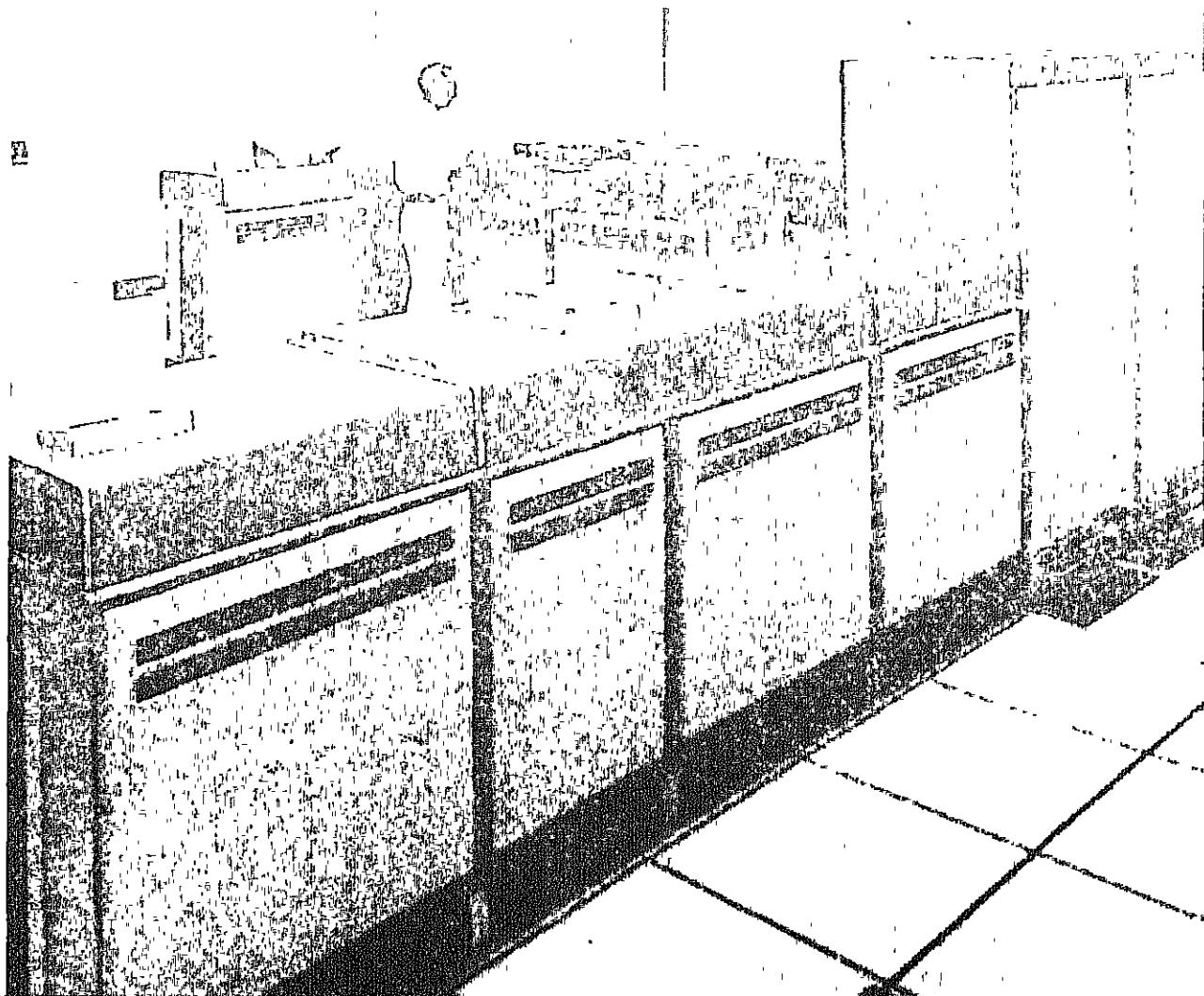
Suggested Guides for an Effective Marketing Program

Based on experience with Citrus Central, management suggests the following guides for other firms to consider:

when setting up an effective marketing program:

- Select a group of firms within an industry who acknowledge that collectively, rather than individually, they can do more for themselves and their members.
- Establish a strong marketing program and philosophy to insure the highest possible returns for the grower. This philosophy must be carried out and improved by a strong marketing staff and committee represented by its members.
- Choose one or two strong individuals within the selected group to lead or spearhead the organization. Pick a strong administrator who knows the business and can work well with all the companies and personalities involved and accepts and promotes this philosophy of business to start with.

Printouts of the latest data on supplies, sales, and trends are made available from these machines to Citrus Central customers.



Mutual Vegetable Sales, Inc.

Mutual Vegetable Sales, Inc., at Salinas, Calif., was organized as a marketing cooperative in 1961 by a small group of vegetable shippers. The cooperative is essentially a cartot lettuce sales agency carrying on other activities only as a courtesy to members and customers. Currently, the only additional crop handled is cabbage.

The five members currently associated with the agency are corporations that produce all of their committed acreage and output.

Organizational Structure

Mutual is the exclusive sales agent for members' lettuce. Other crops may be sold through the agency at the option of both parties.

The agency rents its office space and most of its equipment. Headquarters are at Salinas. Seasonal sales offices are operated at Blythe and El Centro, Calif., and Yuma, Ariz.

The basic tool of Mutual is fast communication to prospective buyers. The Salinas office utilizes two telephone circuits, the Market News Service teletype wire, and a private market wire. In addition, all members have radio service direct to the field.

Eligibility for Membership.--Membership is open to persons, firms, partnerships, corporations, or associations, including other cooperative marketing associations. Members must produce perishable agricultural commodities handled by the association, execute a marketing contract, and meet other conditions prescribed by the board of directors.

Voting.--Each member of Mutual has one vote.

Market Contract.--The market contract specifies that the member must deliver to the association all lettuce grown, owned, or controlled by him that is suitable for marketing. The member must also furnish the association any requested data on acres planted and time and location of plantings. The association, in turn, agrees to do its utmost to sell the produce of its members.

Financing.--Members originally advanced their association sufficient funds to cover organizational cost and other expenses. The advance equaled 0.5 cent per carton of lettuce grown, owned, or controlled by a member during the 1961 lettuce season. The initial advance was set up on a revolving fund basis and has been returned to members in proportion to their contribution.

The association deducts 5 cents a carton for all produce handled to cover operating and sales costs. At the end of each calendar year, actual operating costs are determined, and any payments in excess of actual operating costs are refunded to members on a pro rata basis.

Management.--Business of the association is controlled by a board of directors consisting of five representatives. A representative from each member company is elected for 1 year. The board of directors

meets within 10 days after their election to appoint the association's president, vice president, secretary, and treasurer.

Employees.--The association employs eight full-time people plus one part-time. This total includes a sales staff of three persons.

Policies.--An important objective of Mutual is selected distribution of merchandise according to type of market. Mutual's quality program offers a broad selection of kind, size, and label to meet the requirements of its many buyers throughout the country. Mutual's policy is to sell at a price in line with the average industry price. The association realizes that it cannot develop a profitable operation by regularly selling for more than competition. The goal is to benefit members by more consistently obtaining an average market price for their products.

Another important consideration in cartot lettuce sales is fast and accurate communication with buyers. Mutual's excellent direct telephone and wire service to the industry is a key to its operation.

Operations

Association members retain their identity and operate independently in every area except marketing. They plan their own harvesting schedules, pack under their own labels, and select their own cooling plants.

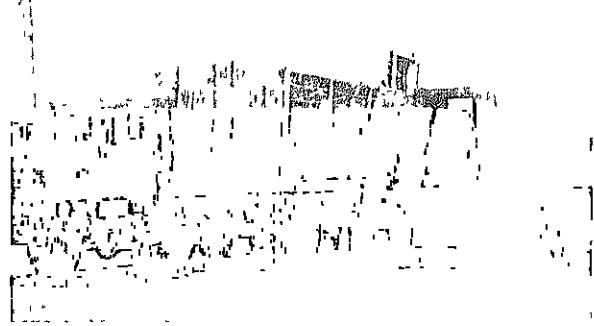
Mutual's responsibility is to obtain a firm price commitment from buyers, make the sale, and handle all necessary paperwork. It assumes its responsibility at the cooler, where it advises personnel on how to load the product for shipment to market. The agency promptly supplies its individual members with a copy of the sales invoice and remittance for each transaction.

Mutual sends to each member that ships produce a daily report of its sales, with average comparisons for all sales. The report also includes the expected pack for the next day, classified by lot, label, and estimated quality, as well as current market information.

Members are invited to use all available information posted daily in the company's salesroom. Data posted on one board include the quantity of lettuce cut from specified fields, labels under which produce is packed, and a description of the products' appearance and quality. Mutual's inspector posts his ratings of the produce on another board. A third board lists produce shipments, truck holdings, arrivals and unloads, and market quotations for Salinas Valley and competing districts.

The agency exerts a stabilizing influence on the sales price through an orderly marketing program. Principal results of the cooperative's marketing methods are reflected in better returns to the grower over the long run.

Sales.--Mutual's first complete year of business was 1962-63, with sales of about \$8 million. The cooperative



Cartons of lettuce head for market.

has continued handling a sizable business at a favorable return for its members; recent years' sales have totaled about \$16 million.

Markets Served.—Mutual ships members' produce to all 16 major terminals listed by the market news service. The four major markets are New York, Philadelphia, Los Angeles, and San Francisco.

Truck shipments account for about 60 percent of the delivered volume, the remaining 40 percent is shipped by rail.

Selling Methods.—Approximately two-thirds of Mutual's sales are handled through brokers. The rest is sold directly to customers.

Direct sales of the association are evenly distributed between corporate chain buyers and wholesalers.

A breakdown of Mutual's expenses for a recent season is shown in table 2.

Brand Policy.—Mutual markets virtually all of its produce under members' labels. The agency has no immediate plans to market produce under its own brand, but it is considering the possibility of doing so at some time in the future.

Labeling practices of members permit them to package produce in three grades.

Market Information.—The association has a teletype machine to keep itself posted on market demand. Additional sources of trade information are USDA's market news service, trade papers, radio, television, and direct contacts with the trade.

Quality Control.—Mutual has its own inspector who tours the coolers and checks every lot of members' produce. He rates produce on the basis of quality factors, such as weight, solidity, color, and appearance. These ratings are then posted on a board for use by the sales staff.

Operating Problems.—Mutual's management believes that lack of communication between members and sales organization could be a major operating problem. Members should be cooperative and maintain good communication with the central sales organization.

Realizing the importance of good communication, the agency has developed a program under which it makes a daily report to its members and permits them use of its information facilities. This type of program should help the needed harmonious and lasting ties in membership relations so essential for a cooperative joint sales business.

Management's Appraisal of Sales Situation

Mutual's management believes that the joint marketing program has eased selling problems of individual members. Without the joint sales arrangement, each shipper would be in a weaker bargaining position and have fewer marketing opportunities.

The association's shipments are sufficient in volume to satisfy the needs of large direct buyers. Various grades and types of lettuce demanded by the trade are more readily available than would be the case with individuals. Mixed loads and wrapped lettuce can be shipped as the need arises.

Suggested Guides for an Effective Marketing Program

Management of Mutual Vegetable Sales believes that an effective marketing program requires:

- Strong support from members.
- Sufficient business volume to be a factor in the market.
- Competent management hired at a competitive price.
- Assured steady supply of produce for customers.

Table 2—Expenses of Mutual Vegetable Sales
for year ended March 31, 1970

| Item | Total expenditures | |
|---|--------------------|---------|
| | Dollars | Percent |
| Salaries | 126,398 | 43 |
| Sales incentive bonus | 25,742 | 9 |
| Communications | 25,495 | 9 |
| Sales allowance | 25,452 | 9 |
| Rent-building and equipment | 17,253 | 6 |
| Office expenses | 15,864 | 5 |
| Payroll taxes and insurance | 11,659 | 4 |
| Travel and entertainment | 10,491 | 3 |
| Bad debts | 9,387 | 3 |
| Subsistence | 8,136 | 3 |
| Automobile | 6,568 | 2 |
| Depreciation and amortization | 4,083 | 1 |
| Advertising | 3,121 | 1 |
| Professional service | 2,038 | 1 |
| All other ¹ | 3,373 | 1 |
| Total | 295,060 | 100 |

¹Includes general insurance, general taxes and licenses, dues and subscriptions, and miscellaneous expenses.

Texas Citrus Exchange

Beginning in 1967 and continuing in 1968, the Texas citrus industry was facing severe marketing problems. With production of both grapefruit and oranges increasing very rapidly and marketing outlets of both fresh and processed citrus fruit somewhat stagnated, the industry was faced with producing more fruit than could be sold economically. In fact, some fruit was left on the trees in 1968 from lack of outlets.

In September 1968, a group of growers got together and formed Texas Citrus Exchange (TCX), Edinburg, to increase outlets for fresh fruit and develop increased facilities for processing orange and grapefruit juices. This central sales agency was originally represented by five cooperative citrus associations. Since that time, two consolidations have taken place and members are currently the following three associations: Lake Delta Citrus Association, Weslaco; Edinburg Citrus Association, and Rio Tex Citrus Association, Edinburg.

Each of the three member associations of TCX has its own board of directors and manager and operates its own harvesting, packing, and transportation facilities.

TCX does not have a direct contact with individual citrus growers. Growers belong to one of the three association which, in turn, are members of TCX.

In the first season's operation, 1969-70, TCX had a fresh fruit sales force that it inherited from Edinburg Citrus Association. In addition, TCX had a supply division and a quality control department. Accounting was handled by Edinburg Citrus Association.

At the start of the 1970-71 season, TCX moved into its own offices in Edinburg. A comptroller was employed to set up an accounting department.

In July 1970, TCX took over the management and operations of the Harlingen, Tex., plant purchased from the Mission-Harlingen Canning Company. This plant, which formerly had processed many commodities, was converted to process single-strength citrus juice only. Later in 1970, the agency built a citrus concentrate plant.

Organizational Structure

Each member association has a contract to sell all fruit through the marketing agency. In addition, each association has representation on the TCX board of directors, which sets policies for the operations of the central marketing agency.

TCX's structure includes a fresh fruit sales department, product sales department, concentrate plant, single-strength juice plant, supply division, and a comptroller and accounting department.

The principal responsibilities of the fresh fruit sales department are to promote the sale of all fresh fruit commodities and to maintain an even flow of fruit in conjunction with each packing plant's projected marketable fruit available for the day. In addition, the

department is responsible for negotiating arrangements for loading and securing equipment to assure proper shipping and arrival dates as well as for coordinating production allocation governing daily disbursements of orders.

The processed products sales department is active in every phase of marketing, including label design, product requirements, promotion, advertising, pricing, and invoicing. Sales personnel are expected to provide their customers with product and marketing information to achieve greater sales.

The new citrus concentrate plant marked its first full year of production in 1971-72. During that season, TCX received from its members and processed 43,664 tons of oranges and 11,280 tons of grapefruit. In addition, TCX recently built a new bulk feed warehouse, which returns an additional \$3.50 per ton of dehydrated citrus pulp to growers.

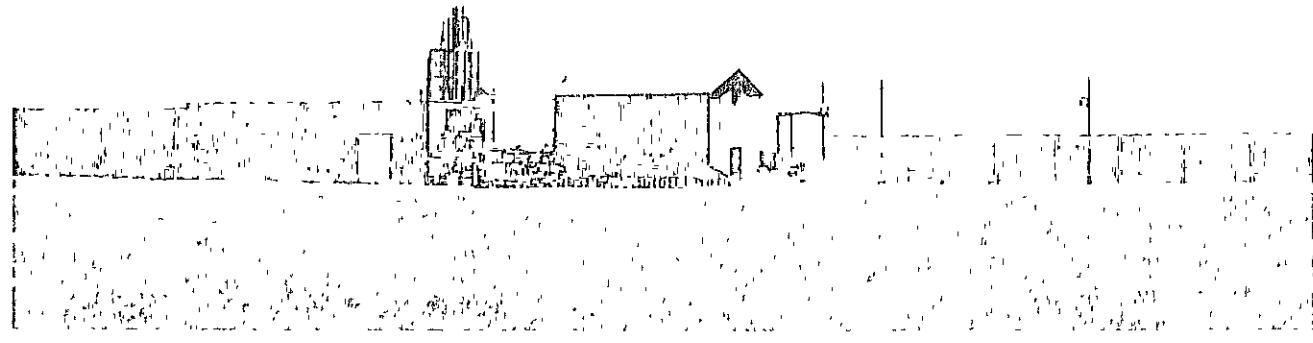
Purchasing the Mission-Harlingen plant enabled TCX to produce 1.7 million cartons of single-strength citrus juices during the first year of ownership. The plant now ranks as one of the largest plants for canning citrus products in Texas. In the 1972-73 season, the plant initiated a new high-speed, 6-ounce line, increasing production 100 percent for this popular item.

The supply division centralizes purchases for the member associations' packing supplies and also regularly stocks several hundred items for customers. Services include daily inventory of packing and shipping supplies at each of the members' fresh fruit houses and subsequent daily deliveries as required. Supplies include more than 10 million boxes and bags, plus items, such as staples, glue, and coloring.

The comptroller and accounting department supplies management and the board of directors of TCX with the necessary accounting and statistical information required to enable prudent decisions and setting of policy. Some reports furnished by the department are: Fresh fruit shipments; crop utilization planning; processed pools; budget and budget comparisons; and citrus tonnage distribution. Other functions include: Invoicing customers for all fresh-fruit shipments; distributing monthly processed pool advances; controlling accounts receivable; preparing and controlling budget; supervising annual operating capital requirements and day-to-day distribution as needed; and certifying and preparing payments for freight and other payables.

Eligibility for Membership.—Currently, only cooperative marketing associations incorporated under the Cooperative Marketing Act of the State of Texas are eligible to join TCX. However, the organization is considering the possibility of taking in commercial packinghouses on an agency-type basis.

Voting.—Each member of the cooperative is entitled to one vote which applies to all membership meetings. However, the number of directors each member cooperative is represented by in TCX is determined by the



tonnage of each cooperative up to a total of four directors.

Marketing Contract.—The contract specifies that the member must market all of its citrus fruit through TCX. The association, in turn, agrees to market the fruit for its members in both fresh and processed form.

Financing.—TCX was organized without capital stock. In addition to capital raised by members, the cooperative borrowed capital funds from the Houston Bank for Cooperatives to purchase the Harlingen plant and build the Mission concentrate plant.

Directors of TCX have set up a program whereby they will have retainers taken out of proceeds of fruit to be delivered in the future so that over a 6-year period the loan from the Houston Bank for Cooperatives will be repaid, and the capital provided by grower members will be revolved.

Another source of capital comes from the McAllen State Bank of Texas, which provides a substantial portion of TCX's operating fund.

Board and Management.—TCX is managed by a board of 11 directors elected for 1-year terms at the annual meeting of members.

The president, vice president, and secretary are elected from the board of directors. The treasurer need not be a member of the board.

The board appoints fresh fruit, products, and finance committees. The fresh fruit committee reviews management activities on the sale of fresh fruit. The products committee analyzes and reviews product production and sales. The finance committee develops programs to finance the operations of the association.

Policies.—The broad objective of TCX is to obtain sufficient volume to dictate reasonable control of market prices. It wants to expand membership to a point where the association controls 70 percent of the State's tonnage of citrus fruit.

Operations

Members supply TCX with grapefruit, early oranges, and Valencia oranges.

For fresh fruit sales, TCX obtains a commitment from each buyer. On making the sale, customers are invoiced for the fresh fruit shipments, and settlements are prepaid and sent to member associations for each shipment. TCX deducts a sales charge and returns the balance of the price to its members.

Citrus for processing is pooled by TCX for its member associations. Members whose fruit is processed and packed by TCX receive advance payments as fruit is sold.

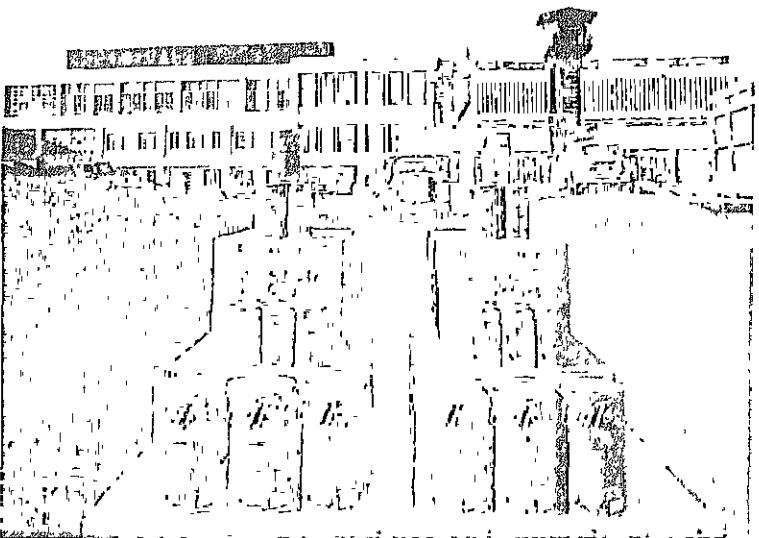
Supplies such as cartons and cans are handled by TCX for members, with margins earned in the supply division passed back to the member associations.

Pooling.—TCX has pooling arrangements for processed citrus based on variety of fruit—grapefruit, early oranges, and Valencia oranges. The accounting department distributes monthly pool advances to member supplies, with final settlement made within 14 months.

Sales.—Sales volume of TCX increased from \$8.9 million in 1968-69 to \$21.9 million in 1971-72. Table 3 shows the organization's sales volume for fresh fruit, processed products, and supplies during this 4-year period.

Table 3—TCX sales of fresh fruit, processed products, and supplies, 1968-69 through 1971-72

| Year | Fresh fruit | Processed products | Supplies | Total |
|---------------|-------------|--------------------|----------|--------|
| 1,000 dollars | | | | |
| 1968-69 | 6,451 | 1,545 | 949 | 8,945 |
| 1969-70 | 7,270 | 4,379 | 1,194 | 12,843 |
| 1970-71 | 9,141 | 9,548 | 1,589 | 20,278 |
| 1971-72 | 8,774 | 11,751 | 1,386 | 21,911 |
| | | | | |



Texas' largest citrus concentrate plant opened in 1972 at Mission. This display stands before the TCX canning plant at Harlingen, Tex.

Progress made by centralized selling of fresh fruit is shown by TCX's use of the same number of rail cars — 3,700 — in 1971-72 as in 1968-69 and sales volume increased from \$6.5 million to \$8.8 million.

Markets Served.—Important receiving centers for the cooperatives' fresh fruit include Los Angeles, Dallas, Houston, and St. Louis. Major markets for processed fruit are Chicago; Dade City, Fla.; and Fullerton, Calif.

Truck shipments account for about 90 percent of delivered volume, the rest is shipped by rail.

Sales Methods.—A little more than half of the volume is sold directly to customers. Most of the remaining proportion is handled through brokers, while only about 5 percent is on consignment.

About 60 percent of the direct sales are made to corporate chain buyers, with the remaining 40 percent going to wholesalers.

Brand Policy.—About 60 percent of TCX's total sales are marketed under their own label. The rest is sold under buyer labels and unlabeled in bulk. Association labels are "Big Tex" for its citrus products and "TCX" for fresh citrus. Labeled fruit and products sold under its own brands are all U.S. No. 1 grade.

Promotion.—About 80 percent of TCX's advertising budget is currently being spent on trade paper advertising, with the rest equally divided between general newspaper advertising and radio.

Market Information.—TCX has a teletype system which keeps the cooperative and members informed on market demand and market orders. In addition, the association obtains market information from contacts with the general trade, Federal and State agencies, and trade journals.

Quality Control.—The association has an effective quality-control program for both fresh fruit and processed products.

Each member association employs Federal-State inspection service for its packing operations of fresh citrus fruit. In addition, TCX has a quality-control program whose inspectors observe the packing operations of members and obtain the necessary coordination of quality for a sales program that specializes in high-quality, U.S. grade No. 1 fruit.

TCX's processing operations have continuous USDA inspection. This inspection includes continuous in-process checks of preparing, processing, and packing operations.

Operating Problems.—A marketing organization covering a federation of locals has a problem on exercising proper control of its locals. Also, as there is a degree of competition among the locals, the marketing agency has to be careful to avoid criticism of favoritism in handling members' produce.

Management's Appraisal of Sales Situation

Management of TCX indicated their marketing agency has provided member associations with a stable sales policy, as well as developing another major outlet for citrus fruit through its processing operation.

The citrus industry of Texas has benefited through TCX's sales program by substantially raising the level of citrus prices in the Rio Grande Valley.

Suggested Guides for an Effective Marketing Approach

- Management of TCX believes that a centralized type of sales organization could be a more efficient operation than a federation of locals.
- To deal directly with large chains and wholesalers, have a large organization with volume production.
- Control a majority of the sales volume in the area and let experienced management make marketing decisions to help assure a successful operation.

CONSIDERATIONS IN DEVELOPING AN EFFECTIVE MARKETING PROGRAM

A good sales organization, a product development program, and top-caliber management are within the reach of producer groups who are willing to coordinate their activities through an effective marketing operation.

Interested members should appoint a study committee to appraise the chances for a successful operation. The committee should study present operations, changes that have taken place, and the potential of a marketing program for adapting to changes and correcting current weaknesses. Emphasis should be given to volume, quality, and other specifications, needed supplemental services as they may become feasible with added volume, financing; and other considerations.

After the economic need for the organization has been determined, answers to the following questions should assist the committee in evaluating objectives, method of operation, sales outlets, member participation in the program, methods of financing, and other factors.

Program Objectives

What priority will be given to gaining higher returns, reducing marketing costs, and getting wider sales distribution?

Marketing Method

What plans can be agreed upon for making the transition between the current marketing method and the proposed method? Special consideration should be given to the status of brands and programs currently in operation.

Sales Outlets

Which sales outlets will be served by the program?

What will be the minimum volume needed to satisfy sales outlets (by geographic regions)?

What will be the geographic distribution of the agency's brand?

Membership Participation

How will control and ownership of the organization be determined?

What will be the procedure for admitting members?

What will be the provisions of the marketing contract? Ascertain the willingness of individual members to commit all of their products to the agency. Duration of the contract, termination features, and degree of permanency in the relationship should be clearly understood. A key part of the contract should be effective requirements for quality standards and quality control.

Method of Financing

Can the various costs of facilities, sales, and merchandising be reasonably approximated?

Will the operating and overhead costs be met by initial capital, a percent of sales, a per unit charge, or a combination of these?

What will be the effect of volume on costs?

Other Factors

Who will furnish the leadership for the new program?

What sales methods and sales commitments are now in effect?

Can all products be included in the proposed program?

Should a uniform cost-accounting system be established for the organization?

Will quality standards be uniformly adopted for all products?

Will returns be made on a net pool, individual-lot basis, or both?

Will the organization own or rent equipment and facilities?

Will trucks be owned or leased?

Findings of the survey committee should be presented to all prospective members. If they decide to establish a coordinated marketing operation, they should select a committee to organize and set up the program.

The organizing committee should retain the services of an attorney familiar with the State's cooperative law to help them draw up the organization's legal papers. These include articles of incorporation, bylaws, and marketing agreement. These documents should be broad enough to provide operational flexibility.

When developing the plan of operation, special attention should be given to the following factors: Market development, quality control, product research, brand development, plant specialization, distribution, transportation, purchasing, accounting, and member relations.

Market Development

An effective marketing operation should involve centralizing sales negotiations. Prospective members should consider setting up a sales department with primary responsibility for handling member sales in the most economical and effective way.

As the association increases in size and potential, additional sales personnel with proved ability and broad industry contacts should be recruited. Experienced personnel of this type can furnish the association and members an improved sales program and help assure the success of the coordinated sales venture.

Many marketing cooperatives have found that extensive contacts between sales personnel and buyers help increase direct sales.

It is imperative that the sales manager maintain good working relations with members. This is basic to coordinating orders and supplies. An effective marketing program requires that the sales department have accurate knowledge of the volume available for distribution. The program should include advance planning and good estimates of the volume to be marketed.

A good start toward obtaining realistic estimates of future volume is through a marketing contract. If an association knows members' planting intentions, and members abide by contract terms, the job of anticipating sales volume is easier.

Quality Control

A successful marketing organization must be able to assure customers of uniform-quality merchandise. To fill requirements of different classes of buyers, the agency must use objective grading standards and controls.

An association should consider setting up a uniform quality-control program, including enforced standard quality control for products processed. A qualified person is needed to administer the program and to be responsible to the general manager of the agency for coordinating quality-control programs at the plants.

The quality-control program should begin at the farm with the use of good seed. Standards should be established to assure comparable cultural practices and orderly harvesting procedures.

If an association decides to implement a quality-control program for the processing facilities, it should consider using USDA's official inspection service. This voluntary service is offered on a fee-for-service basis through the fruit and vegetable division of USDA's Agricultural Marketing Service. USDA's inspectors will inspect a product and issue a certificate of quality based on official USDA grade standards or on specifications of the association.

The U.S. standards that provide yardsticks of quality as well as a common trading language are as follows: Grade A or Fancy, top or best quality; Grade B, Choice, or Extra Standard, good quality, suitable for most purposes; Grade C or Standard, lower quality than Choice or Extra Standard and a thrifty buy where appearance is not important.

The most thorough inspection offered by USDA is continuous inspection. This means that one or more inspectors will be assigned to the processing plant to make continuous in-process checks of preparation, processing, and packing operations. Inspectors observe the preparation of raw material and plant conditions under which the product is prepared, processed, and packed. Frequent line checks are made, and samples of the finished products are examined to determine whether they meet specifications.

Product Research

Successful marketing cooperatives realize the value of new product research. Processing improvement, involving canning-line techniques and procedures, is also important.

One new-product breakthrough is the introduction of aseptically processed fruits. They are available (either sliced or diced) in 55-gallon drums and other super-sized containers and packed directly on the line. These products are ideally suited to use in remanufacture by industrial customers. Perfecting this process required 2 years of close cooperation between California Canneries and Growers' research and development department, Rheem Manufacturing Company, Richmond, Calif., which produces the drums; and the Fian Rica Corporation, Stockton, Calif., an engineering firm that manufactures sterile filling equipment.

Over the past 10 years, more than half of supermarket sales are new items. Although many new items are discontinued, producers who don't keep pace in the scramble for the consumers' favor risk being lost in the shuffle.

Brand Development

Experience of successful marketing agencies suggests that a sales program should include use of both association and buyer labels. A diversified product line permits an organization to serve the needs of different types of buyers. It also provides an outlet for products of different qualities. Cost of operating such a program will depend on whether it is local, regional, or national in scope.

Quality products, continuous supply, satisfactory delivery schedules, and competitive prices are essential, regardless of the labeling program adopted.

Plant Specialization

Cooperative processors or packers that band together in a coordinated marketing agency have the opportunity to pursue additional savings in their packing arrangements. One possibility would be reducing labor costs by packing products in the facilities of member firms with the lowest labor costs. When several firms are involved, major emphasis should be on transferring the product pack of the highest-cost firm to facilities of the lowest-cost firm.

Another consideration for savings would be the export of technology and expertise by the lowest-cost firm in each product to firms with highest direct-labor costs.

Distribution

When planning an effective marketing program, organizers should consider the advantage of a forward location center. A well-placed distribution center can expedite deliveries of commodities over a broad marketing area.

Another consideration is developing co-packing arrangements. An example would be a firm in one location supplying the needed raw material and packing, for a fee, for a firm in another location that wants to add another labeled product to its sales line.

Transportation

Transportation rates and services are important considerations when determining how, when, and where products are marketed. Organizers of the proposed agency should appraise the feasibility of jointly owning or leasing trucks for shipping members' products to nearby markets. The per ton-mile rates for transporting products decrease as distance increases. However, truck rates are most competitive with rail rates for markets within a 200- to 300-mile radius.

Partnership arrangements in which two or more cooperatives, at strategic locations, form an agricultural trucking cooperative could have definite advantages. Under these trucking arrangements, any accumulated savings could be returned to the cooperative members in the form of patronage dividends.

Another alternative is using the transportation equipment of other cooperatives in the area to haul the products to market as backhaul tonnage.

Purchasing Program

An additional service in an effective marketing program is purchasing production and marketing supplies. One aspect of any proposed operation in this area deserves emphasis.

Most cooperatives have found charging members competitive local prices for supplies a sound practice. At the end of the operating season, any accumulated savings may be returned to members as patronage dividends. Purchases for the members could include farm supplies such as seed, fertilizer, and petroleum products, as well as cans of various sizes and other necessary materials.

A good program can bring about savings through relatively large purchases of supplies on a group basis. Production supplies can provide a more completely integrated program with a basis for broader financing. Another important objective is to obtain supplies that will best help members produce merchandise of uniform quality for the market.

One type of service an association might include in its purchasing program is connected with handling fertilizer. The association could recommend the correct application of fertilizer, check on crop growth, and take samples of soil. Including such related services in the purchase program should help knit a close relationship between members and the parent association.

When deciding whether to proceed with a purchasing operation, a basic consideration is the number of

members committed to purchase supplies through the association. A purchasing program might be operated most effectively through a separate purchasing department in the organization.

Accounting System

A coordinated accounting system is essential to managing a large marketing operation successfully. Members and directors need comprehensive, well-organized financial statements, accompanied by supplemental reports, to set policies and control operations.

To guide the activities of an association, the board of directors, as well as employed management, must set up controls to check how well policies are being carried out. For example, budgets on various phases of the cooperative's activities can be developed. Management can determine an association's progress by periodic review of the budget and by other indications such as costs, ratios, and measures of efficiency.

Analysis by comparison is a common business procedure. Comparing financial statements of one company with those of others in the same industry provide useful measures of relative efficiency. Comparing current monthly operating data with those of the previous season, and comparing the current annual report with previous annual reports reveal sales, costs, and margin trends. Comparing present details of operations with planned and budgeted figures helps management enforce its policies, locate strong and weak points in the operating organization, and maintain a running control over expenditures.

A good marketing organization should consider establishing an accounting department with a uniform cost-accounting system. Such a system would help to accurately determine both the quantity and price of a cooperative's processed products stored at various locations.

As a minimum, all members should receive a copy of the association's annual report prepared in sufficient detail to provide an accurate appraisal of operations. Supplementary reports could be used also to disseminate financial information to members. Financial information should be in an easy-to-understand format. Members' understanding can be improved by using charts, graphs, and photographs.

An accounting department under the supervision of the general manager could enhance a cooperative's prestige and be of considerable help to management and members, even with a limited budget and part-time personnel.

Membership Relations

No best way has been found to develop good relations among members. Techniques aimed at encouraging active member participation, such as committee

assignments, contribute to improved relations. But in the final analysis, good relations depend on the organization's ability to achieve results that merit support.

A fieldman employed by the association can help improve member relations or solicit new members. In addition to coordinating production and sales and helping with specific technical problems, the fieldman is in a good position to disseminate other information to members, as well as nonmembers, and to relay information to the cooperatives.

The association should consider using a newsletter. An informal newsletter is a useful device for giving members a more complete understanding of the cooperative. It is a good supplement to personal contacts.

Another good practice is having regular membership meetings to assure better understanding between members and association officers.

SUGGESTED ORGANIZATIONAL STRUCTURE

The organizational structure for effective marketing arrangements should be flexible, based on services provided, and as simple as possible. For example, a brokerage organization needs no elaborate structure. In contrast, a highly sophisticated program, including warehousing, repacking, transportation, and financing requires a well-developed organizational structure.

When planning a marketing program that includes diversified selling of products and handling farm supplies of producer members, set up distinct departments for sales, accounting, and purchasing. Personnel in these

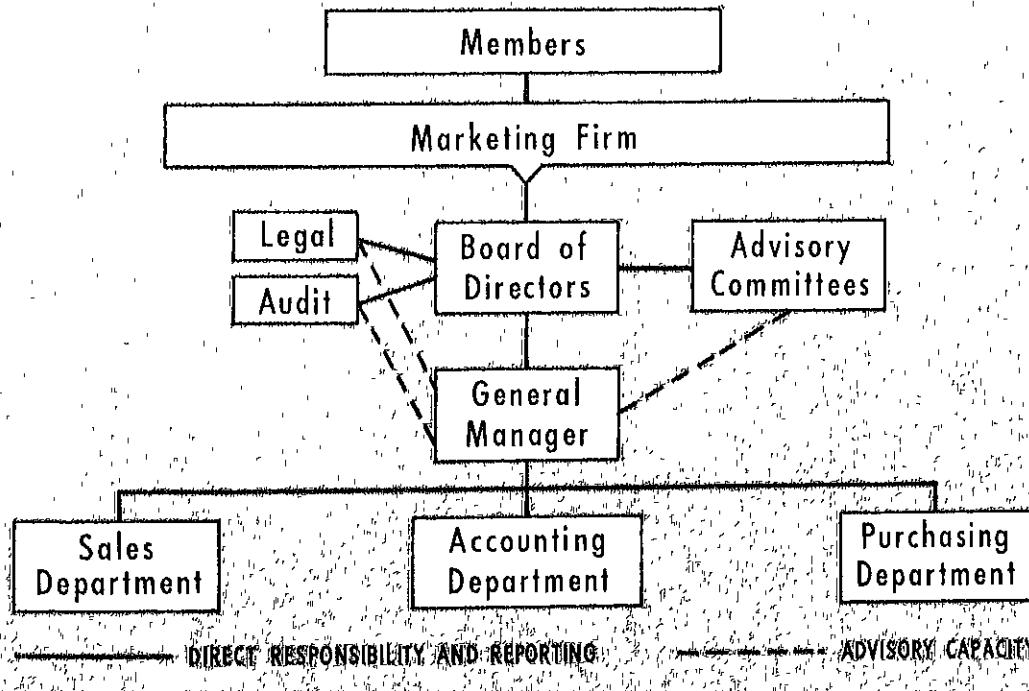
departments are responsible to the general manager. The general manager, in turn, is responsible for carrying out the policy directives of the board of directors. Figure 5 shows a diagram of a proposed organizational plan that incorporates these suggestions. Cooperatives generally look to professionals for verifying qualifications under the Capper-Volstead Act, for legal and engineering help, and for assistance in such areas as quality control, management, taxes, and financing.

Responsibility for organizational policy in a cooperative is delegated to the board of directors by the members. Directors should be primarily concerned with broad policy considerations, and the manager with implementing the policies through day-to-day decisions. Through the elective process, their contacts with directors, and their decision to extend or withhold patronage, members should represent the true governing force of the association. Therefore, the extent to which an association can achieve the objectives of its membership will largely determine the ultimate success or failure of the enterprise.

To be most effective, policy should be clearly defined and in keeping with the basic philosophy of the organization. It is highly desirable to put policy matters into written form. This approach, in addition to forcing management to consider and crystallize its thinking on objectives and procedures, allows competent employees to make decisions consistent with stated aims. It also permits comparisons of individual opinions of the association's operations with the written objectives.

As the operation of an association becomes more complex, directors may find it desirable to hire the services of professional consultants.

FIG. 5--SUGGESTED ORGANIZATIONAL STRUCTURE FOR AN EFFECTIVE MARKETING OPERATION



OTHER PUBLICATIONS AVAILABLE

How to Start a Cooperative. Educational Circular 18.

Legal Phases of Farmer Cooperatives—Sample Legal Documents. Information 66.

An Appraisal of Selected Farmer-Controlled Firms in New Jersey's Fresh Fruit and Vegetable Marketing Industry. Service Report 109.

Cooperative Growth—Trends—Comparisons—Strategy. Information 87.

Foreign Trade of Cooperatives. Information 88.

Bargaining Cooperatives: Selected Agri-Industries. Information 90.

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Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell, (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *News for Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex or national origin.